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The Associated Press
A Beijing worker dusted a portrait of Stalin to prepare for China's national day on Oct. 1, as party leaders, meeting Sunday, adopted a line urging Marxism with flexibility.

Deng Shifts Ideology Back to Center Stage

By Daniel Southerland
Washington Post Service
BEIJING — China's leaders seized the initiative on the ideological front Sunday, using their critics' slogans to their own advantage in a new campaign to restore momentum to their economic changes.
A Communist Party Central Committee meeting passed a major resolution dealing with socialist culture and ethics, or "socialist spiritual civilization."
Sources said that the eight-point, 9,600-character document provided an ideological justification for continuing the rural and urban economic transformation initiated over the past seven years by Deng Xiaoping, China's paramount leader.
The document strongly reflects Mr. Deng's pragmatic approach to modernization but also addresses some of his critics' concerns over the need to counter what they regard as negative Western influences entering China as a result of its policy of opening up to the outside world.
Until recently, it was Mr. Deng's critics who used "spiritual civilization" as their rallying cry. But in a maneuver typical of Mr. Deng, he and his allies seem to be appropriating the critics' main issue — ideals and ideology — for their own use.
It is in the area of ethics and ideology that Mr. Deng and his colleagues have often appeared to be most vulnerable. The current

Reagan Vetoes Sanctions

House, Senate Are Expected to Override Action

By David Hoffman
Washington Post Service
WASHINGTON — President Ronald Reagan, saying that the United States cannot "turn its back and walk away" from South Africa, has vetoed legislation that would impose new economic sanctions

RELATED ARTICLES
Two blacks were burned to death and a nightclub was attacked in South Africa. Page 2.
Democrats took advantage of Mr. Reagan's attempt to avoid publicity over his veto. Page 3.

against Pretoria. The action set the stage for a major foreign policy confrontation with Congress.

Mr. Reagan, in his veto message, said, "The sweeping and punitive sanctions adopted by the Congress are targeted directly at the labor-intensive industries upon which the victimized peoples of South Africa depend for their very survival. Black workers — the first victims of apartheid — would become the first victims of American sanctions."

Congress approved the sanctions by overwhelming bipartisan margins in an effort to pressure South Africa to end apartheid. White House and congressional sources said Mr. Reagan lacked the votes needed to sustain the veto either in the House or the Senate, where a showdown is expected this week. A two-thirds vote in both chambers is needed to override a veto.

White House officials withheld release of Mr. Reagan's veto message until after the network television news broadcasts Friday night, a tactic often used to minimize news media attention to politically unpopular announcements.

Mr. Reagan faces opposition from key leaders of his party, including Senator Richard G. Lugar, Republican of Indiana and chairman of the Foreign Relations Committee.

White House officials said the president was expected to announce additional measures affecting South Africa this week. The measures, which are designed to head off a veto override, may include a milder set of sanctions, a \$300-million regional aid package and a visit to southern Africa by Secretary of State George P. Shultz.



The Associated Press
Christian fighters loyal to Elie Hobeika, removed as Lebanese Forces militia leader in January, making the first attack across the Green Line into East Beirut in the civil war.

Christian Rebels Enter East Beirut In Attack but Are Repelled by Army

United Press International
BEIRUT — The Lebanese Army thwarted an attempt Sunday by pro-Syrian militias to storm the defenses of Lebanon's Christian heartland, sources said.
It was the second attack in two days on the Christian-controlled area. On Saturday, fighters led by Christian opponents of the mainstream Maronite Catholic militia crossed the Green Line into East Beirut for the first time in 11 years of civil war.
The sources said army units, dug in along the Upper Metn mountains northeast of Beirut, opened fire Sunday with tanks and heavy artillery on pro-Syrian militiamen who tried to break through the front line again.

The troops, loyal to President Amin Gemayel, pounded the advancing attackers for half an hour and forced them to pull back and stop their attempt, the sources said.
The army command made no official statement on Sunday's attack on the Christian enclave, which stretches from the hills southeast of Beirut more than 25 miles (40 kilometers) to the north.

The main militia in Christian East Beirut, the Lebanese Forces, said that it had captured several pro-Syrian fighters who had hidden in East Beirut until late Sunday after failing to withdraw to the Western side.
A militia statement said several Muslim fundamentalists were among those captured. It said that they had taken part in the attempt

Tax Reform Passes Senate, Goes to Reagan

By Anne Swardson
Washington Post Service
WASHINGTON — The U.S. Senate, capping an extraordinary drive, has given final congressional approval to a bill that would sharply cut tax rates and limit or repeal many widely used tax deductions.

The bill, one of the broadest revisions of the tax system since Congress created it in 1913, was approved Saturday, 74-23. The legislative struggle was a difficult one, facing strong opposition from special-interest groups concerned about losing tax breaks.

President Ronald Reagan, who had made tax reform his top domestic priority, called the bill "fairer, simpler for most people, one that encourages growth and that is pro-family."

He said he would sign the bill as soon as it reached his desk. The Senate still must approve an accompanying package of technical corrections to the bill, an action expected within a few days.

The bill, approved Thursday by the House of Representatives, 292-136, would cut the top tax rate for individuals to 38.5 percent for income earned in 1987.

In subsequent years, there would be statutory rates of 15 percent and 28 percent, plus a third effective rate of 33 percent for some affluent households.

Corporations would pay an estimated \$120 billion more in taxes by 1991, and the revenue gained would be used to reduce individuals' taxes by 1.6 percent in 1987 and by 6.1 percent in 1988.

Six million people in the lowest income category would be removed from the tax rolls by a higher standard deduction and personal exemption. The rate cuts also would help some people now in the highest tax brackets.



Bob Packwood

Tax Law Will Alter Decades-Old Ways

By Gary Klorr
New York Times Service
WASHINGTON — Life in America is likely to change in hundreds of ways under the new U.S. tax law, altering the way people spend, save, borrow and invest their money.

While the basic fabric of American life will not be radically altered, analysts say, many adjustments are certain. Even though most people will end up with more cash in their pockets, they will lose many of the tax benefits that have helped subsidize and encourage a long list of common expenditures for decades.

Some people may buy less expensive homes or forgo a vacation home because tax benefits will not provide as much of a subsidy for home ownership under a system of lower tax rates. Similarly, with rents expected to rise because of the curtailment of tax breaks for landlords, apartment dwellers may have to set their sights a bit lower.

Many people may finance their next automobile by borrowing against their home instead of taking out a conventional car loan, the interest on which will no longer be deductible from taxable income.

Some students might be forced to choose a less expensive college or work a while before going to graduate school if their scholarships become taxable and education loans are no longer deductible.

And executives may find that the new law puts a crimp in their expense accounts. The new law's 20-percent reduction in the amount that can be written off for business meals and entertainment, together with the lower corporate rate, will raise the real cost of an expensive lunch or a night on the town by 35 percent.

Soviet Shows Test Site to Foreigners

By Robert Evans
Reuters
GEGELEH HILLS, U.S.S.R. — The Soviet Union has opened parts of its main nuclear test site in these barren Central Asian granite hills to the first known inspection by foreigners.

A small group of journalists from the West and Japan as well as reporters from the Eastern bloc were shown shafts tunnelled into hillsides where tests had taken place. They viewed one shaft that had been prepared 14 months ago for an explosion.

Soviet officers who accompanied the party over the weekend made it clear that the visit had been arranged to reinforce Moscow's appeals to the United States to join in the Kremlin's year-old moratorium on nuclear testing.

"The aim of our journey is to show you that our test site is silent," General Yuri V. Lebedev of the Defense Ministry told the group as it flew from Moscow. "We would like it to remain that way for ever."

At the site, in the Gegelen Hills about 90 miles (145 kilometers) west of the city of Semipalatinsk, rail tracks run to the rusted iron doors of two tunnels that officials said had not yet been used for testing. After the doors into one tunnel were unlocked, the group was led about 100 yards (meters) along a track into the hillsides.



A Russian officer testing water for radioactivity Sunday near a nuclear test tunnel.

Coalition Is Acceptable, German Greens Decide

By James M. Markham
New York Times Service
NUREMBERG — Four months before national elections, the anti-establishment Greens party concluded a chaotic congress Sunday with something resembling a victory of its pragmatic wing over its visionary and Marxist-Leninist factions.

The rather murky triumph of the "Realos" — realists among the Greens who favor curbing their hands by assuming governmental responsibilities in coalition with the Social Democratic Party — occurred at midnight Saturday as the

lights were being turned out in a vaulting convention center. After rejecting with hand-flashed green ballots a score of motions, including several that would have effectively excluded a coalition in Bonn with the Social Democrats, the delegates seemed to narrowly approve one that left the door ajar to cooperation if the two opposition parties emerged with a "mathematical majority" in the Bundestag on Jan. 25.

As dogs and children mended their reputations in the darkening hall, a young woman announced that there were "about 180 to 190 yes" votes and "156 to 180 no votes."

That equivocal outcome prompted some rear-guard parliamentary machinations by the "Fundis," or anti-coalition fundamentalists. But a second count produced a count of 230 ayes to 190 nays. For this second vote, extra delegates dived in from the outside stands, where hawkers were pushing the causes of the African National Congress, anti-stay-at-home Iranian factions, homosexuals and the Sandinists, whose youthful West German representatives offered Nicaragua coffee at nondiscount prices.

The balloting was a landmark on the stony road to political realism for the seven-year-old Greens, who say they want to yank West Germany out of NATO and abolish atomic energy overnight. The allure of power, and the need to explain to a skeptical electorate what the Greens are going to do with the votes they are demanding, has subtly tipped the balance from the "Fundis" to the "Realo" camp.



Paul A. Volcker, left, chairman of the Federal Reserve, with Nigel Lawson, British chancellor of the exchequer, at a weekend meeting in Washington. The U.S. and its allies still disagree on economic policy, a Group of Seven statement conceded. Page 15.

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Shultz and Shevardnadze agreed to meet amid reports that resolution of the Daniloff case may be near. Page 6.
The British Labor Party leader rejected U.S. criticism of his anti-nuclear stance. Page 7.
BUSINESS/FINANCE
Banks told Peru it must make "meaningful" payments on overdue interest before any restructuring talks. Page 15.
SPORTS
Miami, the No. 2-ranked college football team in the United States, beat No. 1 Oklahoma, 28-16. Page 21.
SPECIAL REPORT
Arab banks are expected to emerge leaner and better managed from a market shakeout. A special financial report. Page 9.

Nakasone's Gaffe: A Japanese View

By John Burgess
Washington Post Service
TOKYO — Prime Minister Yasuhiro Nakasone's observation in a speech on Sept. 22 that the level of education and intellect in the United States is low because of its large black and Hispanic populations almost passed unnoticed here.

Some of Japan's nationally circulated newspapers made no mention of the remark. Those that did generally reported it in inside-page columns that chronicle off-beat or humorous developments in the political world.

In the view of many Japanese, Mr. Nakasone was simply talking common sense, saying that ethnic diversity creates confusion and discord. From their perspective, he was saying that societies function best when people look, think and act alike, as they do in Japan.

The uproar that the prime minister's words caused the next day in the United States forced Japan to sit up and pay attention. Facing angry speeches in Congress and calls for a boycott of Japanese products, Mr. Nakasone formally acknowledged Friday that

"We are not accustomed to living together with other races."

— Tadashi Yamamoto, Japan Center for International Exchange

he had offended many Americans and issued a heartfelt apology. His gesture appeared to cool things off, but it did little to close the gap in racial perceptions that permanently divides the two coun-

At the UN, Falling Doves, Magic Tricks and a New Kind of Hero

By Elaine Sciolino
New York Times Service
UNITED NATIONS, New York — Just before his speech, President Ronald Reagan got stuck in an overloaded elevator for nearly a minute before a security guard employed by the United Nations could pry the door open.

debate — no debate at all but a series of speeches — is the closest thing to a State of the World address, as national leaders bring their concerns to the attention of their constituents at home and their colleagues abroad.

Of one foreign minister's cutting short his speech to save time: 'If everyone did this, it would save us hundreds of thousands of dollars.'



tion is struggling to streamline, Angola's foreign minister, Alfonso Van Dusem, has emerged as a kind of in-house hero at this session.

Israel protested through the United States, and American officials paid a visit to Mr. Ndinga-Oba, telling him that Mr. Reagan's visit just might not look favorably on a meeting with Congo's president, Denis Sassou-Nguesso, when he visits Washington next month.

On International Peace Day, Marcela Pérez de Cuéllar, the wife of Secretary-General Javier Pérez de Cuéllar, let loose a live "peace" dove that promptly fell to the ground with a thud.

For the most part, the world's concerns are vastly different from those of the first assembly 41 years ago, which grappled with the extradition and punishment of war criminals, a worldwide shortage of grain and the economic reconstruction of countries devastated by World War II.

apartheid, a variety of regional conflicts and the financial woes of the host organization. The UN financial officers say they may not be able to meet the payroll by Dec. 31.

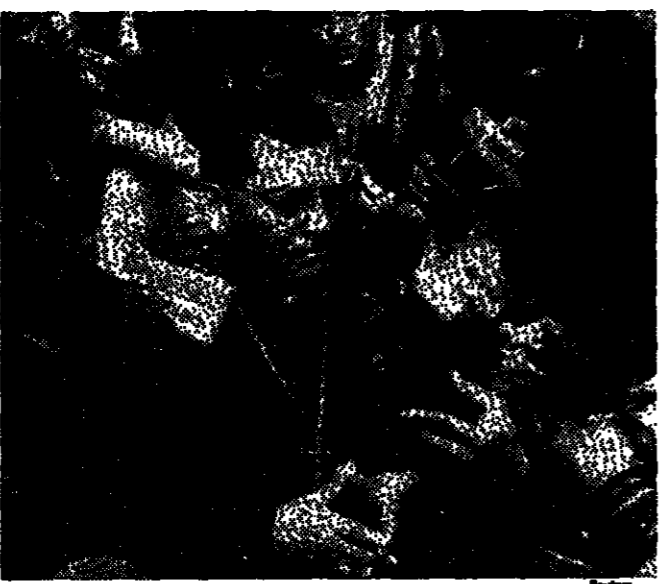
destiny that will lead us to liberty and democracy." Others included concerns closer to home, from King Juan Carlos I's call for the rapid return of Gibraltar to Spain to the demand by Foreign Minister Wu Xueqian of China that Vietnam withdraw from Cambodia.

At a time when the United Nations is struggling to streamline, Angola's foreign minister, Alfonso Van Dusem, has emerged as a kind of in-house hero at this session.

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Nicaragua Renews Talks With Church

By Marjorie Miller
Los Angeles Times Service
MANAGUA — The leaders of Nicaragua's Sandinista government and the nation's Roman Catholic Church leaders have agreed to revive a commission on church-state dialogue after its first meeting in almost a year.



Cardinal Miguel Obando y Bravo, primate of Nicaragua, after his meeting with President Daniel Ortega Saavedra.

Helms-Pinochet Talks Allegedly Were Bugged

By Joanne Omang
Washington Post Service
WASHINGTON — The Central Intelligence Agency has obtained electronic surveillance information on conversations between Senator Jesse Helms and President Augusto Pinochet of Chile, according to the North Carolina legislator's staff and intelligence sources.



Jesse Helms

2 Blacks Die In Fires in South Africa

Agence France-Press
JOHANNESBURG — Two black men were burned to death and four others were wounded in weekend violence in South Africa that included a grenade attack on a nightclub, officials said.

WORLD BRIEFS

Flooding Displaces 500,000 in India

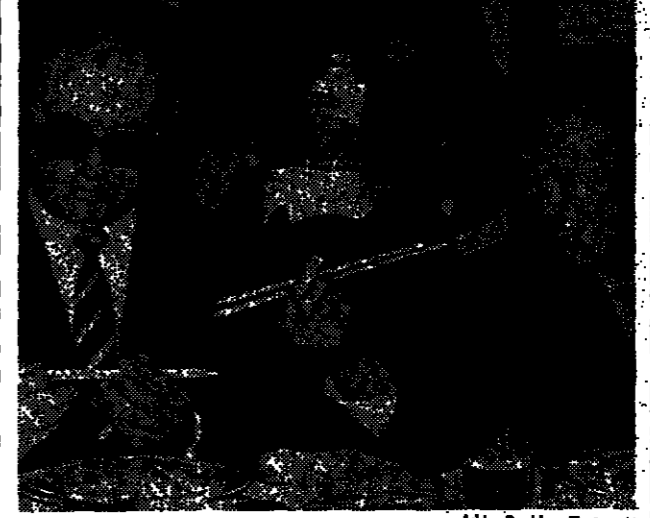
CALCUTTA, India (AP) — Officials in West Bengal state have begun a relief program to aid the estimated 500,000 people driven from their homes by torrential rains and flooding.

Liberia Silences Independent Paper

MONROVIA, Liberia (AP) — The Liberian government has revoked the publishing license of the Sun-Times, effectively silencing the independent newspaper when it failed to meet a 24-hour deadline for payment of a fine.

Chirac's Majority Unchanged in Vote

TOULOUSE, France (Reuters) — France's ruling conservative coalition and the opposition Socialist Party each won four seats in a parliamentary by-election Sunday, leaving the right's narrow National Assembly majority unaltered.



HERE'S HOW, GENERAL — General Wojciech Jaruzelski dines with Prime Minister Zhao Ziyang after arriving Sunday in Beijing.

General Wojciech Jaruzelski dines with Prime Minister Zhao Ziyang after arriving Sunday in Beijing. General Jaruzelski's visit, the first by a Polish head of state to China in 27 years, reflects an improvement in Chinese-Soviet relations.

Israel Appoints 3 West Bank Mayors

JERUSALEM (AP) — Israel appointed Palestinian mayors to three cities in the occupied West Bank on Sunday to replace Israeli officers, a Defense Ministry official said.

Senate Foes in Louisiana Face Runoff

NEW ORLEANS (UPI) — Representative John B.reaux, a Democrat, has forced the favored Republican candidate, Representative W. Henson Moore, into a runoff contest for the U.S. Senate seat now held by Russell B. Long, who is retiring.

Peres Jeered at Ceremony Honoring Moroccan King

ASHKELON, Israel — Thousands of Israelis jeered Prime Minister Shimon Peres as he dedicated a square Sunday to a former Moroccan king, Mohammed V, a day after Arab guerrillas killed a Jewish resident of this resort town.

China Exhorts Peasants to Heed One-Child Rule

BEIJING — China has opened a campaign to strengthen enforcement of population-control policies in rural areas where nearly 800 million people live and where resistance has been the strongest.

Divestitures in U.S.

In the first year of one of the nation's most far-reaching divestment programs, the state of New Jersey has withdrawn \$1.5 billion in pension fund investments from South Africa.

Dutch Appeal to Santiago

The Netherlands foreign minister, Hans van den Broek, appealed Saturday for the release of a Chilean student who was dragged from a Dutch diplomatic car by armed police in Santiago on Sept. 8.

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CHINA: Changes Endorsed

(Continued from page 1)
says that it will be impossible for China to modernize without opening up the country to science, technology and management techniques from the West.

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DOONESBURY



Bill to Detain Fails in U.S.

WASHINGTON — A sweeping bill to restrict U.S. immigration law to control the flood of alien workers into the country, passed by the House of Representatives, failed to clear the Senate.

General Takes Swipe At Combat-Readiness

An army general in response to a report from his command office for the "combat-readiness" of the army's training reserve forces.

Senate Foes in Louisiana Face Runoff

NEW ORLEANS (UPI) — Representative John B.reaux, a Democrat, has forced the favored Republican candidate, Representative W. Henson Moore, into a runoff contest for the U.S. Senate seat now held by Russell B. Long, who is retiring.

For the Record

A bomb exploded at a political rally in Dhaka organized by the opposition West Bank on Sunday, injuring 15 persons, 5 of them seriously, hospital workers said Sunday.

Peres Jeered at Ceremony Honoring Moroccan King

ASHKELON, Israel — Thousands of Israelis jeered Prime Minister Shimon Peres as he dedicated a square Sunday to a former Moroccan king, Mohammed V, a day after Arab guerrillas killed a Jewish resident of this resort town.

China Exhorts Peasants to Heed One-Child Rule

BEIJING — China has opened a campaign to strengthen enforcement of population-control policies in rural areas where nearly 800 million people live and where resistance has been the strongest.

Bill to Deter Illegal Immigrants Fails in U.S. House, 202-180

New York Times Service

WASHINGTON — A yearlong drive to rewrite U.S. immigration law to control the flood of aliens entering the country illegally has ended, with the House of Representatives refusing to consider a comprehensive bill.

Supporters of the legislation said it was dead and indicated that it might not be revived for years.

The bill, like similar efforts in the past, would have offered amnesty to many undocumented aliens but would have sought to deter new illegal entries by imposing sanctions on employers who knowingly hired them.

By a vote of 202-180, the House defeated Friday's resolution to bring the bill to the floor.

Republicans, who voted against the resolution by 145-13, complained that they would not have any opportunity to amend or delete a section of the bill that they regarded as much too generous to illegal aliens already working on American farms. Democrats supported the bill, 167-57.

The Senate passed a version of the legislation in September 1985.

Asked if Friday's action meant the bill was dead for this year, Representative Peter W. Rodino Jr. of New Jersey, a Democrat and chairman of the Judiciary Committee, who is chief sponsor of the House legislation, said, "So far as I'm concerned, it is."

Supporters of the bill, including the Reagan administration, said it was needed because, with the deterioration of Mexico's economy, growing numbers of aliens have crossed the border without visas. The Immigration and Naturalization Service expects to catch 1.8 million illegal aliens this year, about 30 percent more than last year.

Attorney General Edwin Meese 3d blamed the result of Friday's vote on House Democratic leaders' handling of debate on the bill.

But Mr. Rodino said that the Reagan administration and other Republicans were responsible. "No one was really

Democrats Fashion a Show of Reagan's Veto Tactic

By Sidney Blumenthal
Washington Post Service

WASHINGTON — For years, the Democrats have been routinely outmaneuvered in the war of political symbolism by President Ronald Reagan. On Friday, the Democrats tried to gain the upper hand, however briefly, on the issue of South Africa.

With Mr. Reagan's veto of the South African sanctions bill due Friday evening, the Democrats felt that the president was about to commit an act vastly unpopular with the public and even with the Republican Senate leadership. At last, they hoped, they could score — and score they did.

The White House public relations team, for its part, hoped that if the president waited to issue his veto statement until well past the hour for the television evening news, the issue might fade unnoted into the weekend.

But the president's maneuver backfired. Not only did the networks feature Mr. Reagan's expected South African decision, but Dan Rather, the anchorman on the CBS Evening News, pointedly said: "The president seeks to avoid as much newspaper and television coverage as possible."

The Democratic public relations effort to make prime-time coverage unavoidable was a 24-hour guerrilla operation, hastily put together by a small group of Capitol Hill staff members, with the approval of their superiors.

On a day's notice, they constructed a protest that seemed expertly arranged. The Democratic pickets were there to express outrage. From the Senate came Edward M. Kennedy of Massachusetts, Paul Simon of Illinois,

U.S. Senate Bars Army in Drug Fight

By Helen Dewar
Washington Post Service

WASHINGTON — The Senate has rejected a proposal that the armed forces be deployed to combat drug smuggling but has indicated support for the imposition of the death penalty for major drug traffickers.

The action came Saturday as Republican and Democratic leaders joined in an attempt to pass an anti-drug bill without the controversial provisions approved earlier by the House of Representatives.

The proposal to use the military in drug interdiction was rejected 72-14 after Senator Sam Nunn, a Georgia Democrat, attacked it at length in scathing terms.

Mr. Nunn, the senior Democrat on the Armed Services Committee, contended that the proposal could divert the entire U.S. military force to the job of sealing the borders against drug traffic.

The Senate considered a series of amendments to the drug bill under a bipartisan leadership strategy of lending off proposals from left and right to assure final passage before Congress adjourns early next month.

Among these proposals were the use of the military in drug interdiction, imposition of a federal death penalty for the major drug dealers, relaxation of judicial restraints on the use of illegally obtained evidence in trials, and mandatory testing for drug use.

Most of the proposals were approved by the House but were opposed by liberals in the Senate as an abridgment of civil liberties and an excessive response to political pressures during the current election campaign.

Senator Alan J. Dixon, an Illinois Democrat, brought up the military deployment proposal.

The proposal would have required the president to use military equipment and personnel to locate, pursue and seize drug-carrying vessels and aircraft and to arrest sus-

The first was to Representative Don Edwards, the California delegation's chairman, who gave his approval.

"We just called everybody involved in the leadership of this issue," said Mrs. McFarland.

By 4 P.M. Thursday, Mr. Edwards had spoken on the House floor with Mr. Leland, leader of the Black Caucus, and called the speaker's office himself. Ellen Boyle, Mr. Leland's aide, soon turned up at the desk of Christopher Matthews, the speaker's press secretary.

"I want a firestorm. I want the reaction to be a reaction to Reagan — the reaction should be the lead. Who should I call? Kennedy?"

Representative Gray wandered in. "What's Lugar been saying?" he asked Mr. Matthews, referring to Richard J. Lugar, Republican of Indiana and chairman of the Senate Foreign Relations Committee, who had called on Mr. Reagan not to veto the legislation.

Friday morning, Mr. Barry and Mrs. McFarland went to Mr. Edwards's office to pick up an American flag. "I called the sergeant at arms," said Mrs. McFarland, "and he said we could bring it. We hope this will put the brakes on the Great Communicator."

They arrived at the "TV Triangle" at 11 A.M., an hour early.

Just before noon, the Democratic spokesmen moved like a single body toward the masted microphones and cameras. The denunciations of Mr. Reagan's policy went on for almost an hour.

By Friday night, even before the White House announced the veto, the television networks were broadcasting the Democratic response.



FINLANDIA TRADITIONAL NORDIC VODKA DISTILLED SINCE 1868



Margaret M. Heckler, U.S. ambassador to Ireland.

U.S. Inquiry On Embassies Said to Grow

By Howard Kurtz
Washington Post Service

WASHINGTON — State Department investigators looking into the possible misuse of an embassy entertainment fund by the U.S. ambassador to Switzerland are examining similar funds at U.S. embassies in Ireland and other countries, administration sources said.

The department's inspector general is examining whether the privately raised funds, which are added to State Department entertainment allowances and are supposed to be used primarily to entertain foreign citizens, were improperly spent on dining and dining Americans, the sources said Friday.

They said preliminary evidence concerning the entertainment funds of the U.S. ambassador to Ireland, Margaret M. Heckler, and other envoys was less serious than that involving the ambassador to Switzerland, Faith Ryan Whittlesey, which the Justice Department is investigating.

Representative Dan A. Mica, a Florida Democrat and chairman of the House Foreign Affairs subcommittee on international operations, disclosed Friday that his panel had been examining the U.S. Embassy fund in Bern, Switzerland.

According to informed sources, John C. Whitehead, a deputy secretary of state, recently blocked an effort by other department officials to issue new regulations that would have restricted or barred the use of private donations for embassy entertainment. The sources said that Mr. Whitehead had concluded that the use of these donations was not improper.

Private contributions for the entertainment funds at the U.S. embassies in Switzerland and Ireland were raised by Fred H. Gottfurcht, a leading California fund raiser for President Ronald Reagan. Mr. Gottfurcht was appointed by Mr. Reagan to the board of United Service Organizations, or USO, which organizes entertainment and social services for the U.S. armed forces.

"There's a clear question whether or not it was even legal to spend the money the way it was spent," Representative Mica said.

There were few details on possible abuses at the embassies in Ireland or elsewhere.

In the Swiss Embassy case, State and Justice Department investigators were looking at Mrs. Whittlesey's hiring of a White House aide after the aide's father had contributed \$5,000 to the fund.

Embassy records show that Mr. Gottfurcht, who later was Mrs. Whittlesey's guest in Switzerland, helped raise at least \$83,000 for Mrs. Whittlesey in tax-deductible donations. Mrs. Whittlesey used the fund largely to entertain administration officials and U.S. conservatives and businessmen, several of whom had contributed up to \$5,000 to the fund, the records show.

"I've been in the Foreign Service for over 30 years, and the one rule we've always had in the use of those funds is that it was for foreigners," Gerald Lumbery, president of the American Foreign Service Organization, said Friday. He said that expenditures primarily for Americans would generally be rejected by embassy administrative officers.

Mrs. Whittlesey, former director of the White House public liaison office, has been unavailable for comment.

AMERICAN TOPICS

General Takes Swipe At Combat-Readiness

As army general, in response to a request from his commanding officer for his "unconstrained views," has written a scathing appraisal of the army's training and reserve forces, The New York Times reports.

Major General Robert E. Wagner, commander of the Reserve Officers' Training Corps, asserted, "Our reserve components are not combat-ready, particularly National Guard combat units." Such units would provide nearly half the army's wartime strength.

The general's criticisms were contained in a private letter to his superior, General Carl E. Vuono, head of the Training and Doctrine Command at Fort Monroe, Virginia. General Wagner said that in the training of active forces that there were "good divisions and bad divisions" in which the degree of readiness "was strictly the result of the energy and professionalism of the division commander." He added that "every division in the army appears to operate in its own sandbox."

General Wagner sent copies of the letter to seven generals in the training command. Other copies, apparently supplied by an officer who disagreed with him, soon reached National Guard officers and reporters at the Pentagon.

General Wagner said through an army spokesman that he stood by the letter, but that he would have toned it down if he had known it would be made public.

Notes About People

Inaible R. Marcos reportedly brought 200 suitcases to the United States when she went into exile with her husband, former President Ferdinand E. Marcos of the Philippines. But President Corason C. Aquino brought just two suitcases on her recent eight-day U.S. trip, telling reporters who asked, "I wouldn't know what I would do with 200 suitcases."

Admiral Elmo R. Zumwalt Jr., now retired, told this story on himself to The Washington Post: While chief of naval operations, he got lost jogging in Houston. He had no glasses to read a phone book to call his host and no money for the call. He found a construction worker to look in the phone book. The number was unlisted, so the admiral called the Pentagon collect to ask where he was staying. The worker gave him a lift there. On the way the man asked Admiral Zumwalt what he did for a living. "I run the navy," he replied. The man said, "You don't know where you live and you can't read, and you expect me to buy that?"

Short Takes

Americans abroad who wish to vote in the Nov. 4 general election must register with their local voting districts by Oct. 6. Voters can register by filling out and mailing federal post card applications. These are available at U.S. embassies, consulates and military posts, as is information on varying state requirements.

Glenville High School in Minnesota defeated Ellendale-Geneva 14-8 in football this month to end a losing streak that began eight years, and 70 games, ago. Glenville, a town of 850 people, has one of the smallest schools in its conference, with only 27 seniors. The superintendent, William Bjorklund, said that the pupils "found that losing streak a lot better than our adults."

Shower Taxes: State lotteries took in \$9.3 billion in the 1985 fiscal year, a 25.5 percent increase over 1984, according to the weekly magazine U.S. News & World Report. Of the 3,200 U.S. universities and colleges, 600 offered graduate programs in business last year, 120 more than in 1978, and they granted about 70,000 business degrees, 44 percent more than in 1978. The 30,505 U.S. supermarkets, defined by the National Association of Retail Grocers as those with sales of



NAMING THE ROSE The House picked it. So did the Senate. Now it's up to the president to make it official.

To Congress, a Rose Is a National Flower

Both houses of Congress, ending a debate dating from the 19th century, have designated the rose as the national flower, and the bill is expected to be signed by President Ronald Reagan.

The rose won out as "the national floral emblem" over such other flowers, introduced in past bills, as the marigold, dogwood, mountain laurel, daffodil, orange blossom and even corn tassel and just plain grass. No type or color of rose was specified.

Advocates noted that the rose grows outdoors in every state, that it is native to America (classified roses have been dated from 35 million years ago), that it has inspired more poetry and song than any other flower and that while it symbolizes peace, its thorns give it a formidable defense.

—ARTHUR HIGBEE

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INTERNATIONAL Herald Tribune

An Unpopular Veto

In this season of rising awareness of the ravages of apartheid, the Reagan administration had a chance to form a broad national and international coalition...

joining the political process, he passed it by, referring to the African National Congress as though it were no more than a Communist and terrorist organization.

As Congress had made plain with its lopsided votes, the president who Friday vetoed its angry, calibrated sanctions against South Africa does not speak for the American people.

He resents congressional meddling in foreign policy, but, by refusing to move toward the consensus plain in Congress and the country, he has brought this collision on himself.

No Exit From Lebanon

Lebanon's murderous, multi-sided civil war has baffled and defeated all outsiders who have tried either to end or to exploit it.

a virtual alliance with a Christian militia operating in a predominantly Shiite area. But the Shiites are now bitterly split into a relatively moderate majority group, Amal, and the fiercely anti-Israel Party of God.

Other Comment

A Moment Full of Optimism
Eduard Shevardnadze, the Soviet foreign minister, must be nursing inaccurately feelings toward his colleagues in the KGB.

Gorbachev is signaling as plainly as he can that he wants a second summit with President Ronald Reagan, and that he is prepared to swallow some of his own words to get it.

OPINION



This Is the Week for a New Development Agenda

NAIROBI, Kenya—When world finance ministers gathered in recent years for the annual meetings of the World Bank and the International Monetary Fund, there were high hopes that they would adopt strong measures to straighten out financial and development problems involving both the industrialized and the poor countries.

The 92-member General Agreement on Tariffs and Trade has decided to open negotiations next year on trade, liberalizations, and finally, many influential Third World leaders now appear willing to abandon the leftist shibboleths and programs that brought ruin to their countries.

outside experts to impose programs and projects that do not take account of the religious practices, social customs and traditions of the old societies being helped. Local people must participate in the development projects.

being asked to be fiscally prudent and produce more — yet they are earning less. And unless sanity is restored to the global currency system, Third World states will remain at the mercy of fluctuating exchange rates.

Europe's Farm Policy: An Extravagant Boomerang

CANBERRA — It is well known that the European Community's Common Agricultural Policy is financed by value-added taxes and other levies, with payments being made through the Community budget.

Inflation-adjusted food prices in the Community have fallen slightly over time, but not so fast as elsewhere. What would happen to the cost of living, real wages and competitiveness if Europeans could purchase butter and other goods at the same low prices as Soviet consumers can?

By Andy Stoeckel
In terms of total EC employment, it might be thought that the Common Agricultural Policy had kept farmers on the land and saved jobs. Certainly there have been some extra jobs, particularly in industrial areas serving agriculture.

For example, its share of OECD exports of equipment goods has fallen by 25 percent. By in effect taxing manufacturing exports and subsidizing imports, Europe has reduced the competitiveness of its manufacturing sector.

When Allies Fall Out, the Alliance Can Fall Apart

PARIS — A fine row has broken out between the U.S. government and Britain's Labor Party. It could as well be a row with Britain's Liberal Party, if that party's existence was not so tenuous.

That, however, will not change the fact that a sizable part of the British political class manifestly opposes the British deterrent, the U.S. nuclear deterrent and most of what it sees in current U.S. security policy.

ton. U.S. officials still do not think unthinkable thoughts. That is their professional deformation. American foreign policy continues to be run largely as an adjunct to the running of American election campaigns.

Washington does not worry about European public and political opinion because the unuttered but almost universal assumption made in Washington is that America does not need NATO but the NATO allies need America.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: Alarm in Tripoli
TRIPOLI — The Italian fleet is making a demonstration off the port (on Sept. 28), but no attempt has been made to land. A cordon is drawn all along the coast to prevent the landing of any further Turkish arms or men.

1936: Toledo Siege Ends
TOLEDO — Raising the heroic siege of the Alcazar, White troops took complete possession of Toledo (on Sept. 27) and started converting the battered city into a base for the siege of Madrid.

Due to come
the Airbus A320
150 seat aircraft
by wire computer signal
the composite material
the A320 sets new stand
with fully digital avionics

Due to come
the Airbus A320
150 seat aircraft
by wire computer signal
the composite material
the A320 sets new stand
with fully digital avionics

Green Light For Chinese, More or Less

By Flora Lewis
BEIJING — Foreigners are startled that once again China's leadership is urging that "a hundred flowers bloom" and is expecting a bright response from its artists.

Where was Schultz when Reagan was wrapping himself in Gramscian...

It is doing in domestic policy is analogous to what the executive branch has done in the Mikhail Daniloff affair. The common theme is the purchase of immediate satisfaction by spending principles and ignoring the future.

The future...

Without speaking Chinese, I find I am affected by the use of imagery and metaphor to express what is not supposed to be made clear. My wish is that the Chinese are going through a period of using old words to mean new things, so that it can change without speaking too harshly to its long-suffering folk.

The future...

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OPINION

Self-Indulgence on the Hill And in the Administration

By George F. Will

WASHINGTON — If the disposition of the U.S. Congress is any...

Where was Shultz when Reagan was wrapping himself in Gramm-Rudman, as in the flag?

is doing in domestic policy is analogous to what the executive branch has done in the Nicholas Daniloff affair.

Secretary of State George Shultz says: "I was amazed at the outcry over making arrangements to get Mr. Daniloff out of a 6-by-10 cell into a more congenial environment while this was being struggled with."

Mr. Shultz is the adviser the president trusts most. Where was Mr. Shultz when the president was wrapping himself in Gramm-Rudman, as in the flag?

It was self-indulgence of the administration to set a dangerous precedent merely to satisfy its understandable desire for Mr. Daniloff to have a "more congenial environment."

As the president said when Jesse Jackson collaborated with Syria to enable Syria to avoid dealing with the U.S. government concerning release of a U.S. citizen, "You can't argue with success."

But you can and should argue with it when it involves self-indulgent procrastination with the immediate. Speaking of which, the tax simplification bill — 925 pages of relentless simplification — will pass, partly because of "transition rules" designed to mitigate the agony of "fairness" as it falls on certain friends of certain senators and congressmen.



LETTERS TO THE EDITOR

Gorbachev Is No Stalin Regarding the opinion column "Daniloff Case Harms Gorbachev's Image" (Sept. 13) by Marshall T. Goldman...

sooner the United States starts to see past the ill or odd cut of Communist cloth, the wiser will be U.S. policy decisions regarding Soviet strategy.

strategic, economic and cultural reasons, should be fashioning a "good neighbor" policy. It is not even funny.

Two Standards for Animals I admire environmentalists working to save endangered species like the rhinoceros.

The Future of Hong Kong In her column "On China's Hopes for Hong Kong" (Sept. 20), Flora Lewis writes: "The crux of the deal with Britain was that key parts of the territory were held on leases from China that expire in 1997."

Art Buchwald owes an apology to Mexico. In his ironic comments (Sept. 18) on the Pentagon's war on drugs he seeks, tongue-in-cheek, to calm fears about the risk of the military being used "for other things besides finding dope."

The killing of pilot whales is not a pretty sight, but far too often environmentalists are narrow-minded and emotional, putting animals before people and cultural patterns.

Different but Not Dumb Bravo to Charles Krauthammer for "Rushes Belie the 'Stupidity' of the Kremlin Tough Guys" (Sept. 20). The

What a simplistic, cheap and uninformed shot at a great country for which the United States, for obvious

consciousness. With this formula in our possession, world peace is now only a matter of money to maintain the group of 7,000.

Seven thousand experts practicing the Maharishi Technology of the Unified Field together can be trained and modestly maintained in India with the annual income from a fund of 100 million dollars.



The future is now in production. Due to come into service in 1988, the Airbus A320 is the only all new 150 seat aircraft in production. It's also the first subsonic airliner to use 'fly by wire' computer signalled controls and it leads the way in the application of weight saving composite materials.

Advertisement for Maharishi's Programme to Create World Peace. Features a portrait of Maharishi Mahesh Yogi and text describing the programme's goals: eliminating the basis of terrorism and war without loss of life, raising \$100 million to ensure world peace, and creating coherence in world consciousness.

In Poland, Conflicting Signals

Along With Amnesty, a Call for Detention of Dissenters

By Michael T. Kaufman
New York Times Service

WARSAW — While General Wojciech Jaruzelski has welcomed recently released political prisoners to what he called "responsible" public life, the Polish Communist Party has called for the administrative detention, without trial, of dissidents deemed harmful by the authorities.

These somewhat contradictory signals reflect a desire to navigate policy through the conflicting concerns of the authorities, supporters of Solidarity, the Roman Catholic Church, Western creditors and the Warsaw Pact allies.

When the government announced Sept. 11 that it would free the opposition figures who remained in prison, the move was applauded by Pope John Paul II and Western governments. But at a briefing for Soviet-bloc diplomats on the amnesty, aggressive questions were asked — some said notably by the Czechoslovaks and the East Germans — about whether Poland was about to countenance a de facto opposition.

In addition, some Polish security officials were reportedly disenchanted by the release of people whose capture, interrogation and persecution had taken so much of their time and effort.

Party sources said those opposing the amnesty had been placated a little by an unpublished directive recommending that dissidents no longer be held for full-fledged trials that would attract world attention.

Instead, the party says, they should be processed in half-hour administrative hearings on misdemeanor charges. This was the practice in the 1970s, when defendants often received a sequence of short sentences, sometimes adding up to years in jail.

Generally, government officials have tried to offset declarations of a new beginning and renewed chances of dialogue with assertions of continuing vigilance and retention of decision-making power in party hands.



Zbigniew Bujak, the former underground leader of Solidarity, thanking Cardinal Jozef Glemp at St. Martin's Church in Warsaw for the efforts of the church to aid political prisoners. Mr. Bujak was released from prison Sept. 8.

The message is that freer discussion will be tolerated but that there will be no return to the days before 1981 when a government buffeted by strikes accepted independent labor unions.

The twin approach was evident in a speech General Jaruzelski, the Polish leader, made recently in Zielona Gora.

"No one in our country will be discriminated against for his or her convictions," he said. "Every citizen's voice should be heard, regardless of its source, if it is accompanied by a patriotic intention, a feeling of responsibility and respect for constitutional principles."

Such statements appeared to be intended as positive responses to

Bonn Foils Plan to Rush Refugees into West Berlin

Reuters

BONN — West Germany appears to have thwarted an attempt to rush 27,000 Third World refugees into West Berlin on a route through Eastern Europe, the Foreign Ministry said Sunday.

A spokesman said the plan had involved ferrying 600 bus loads of asylum-seekers, mostly from Turkey to Bulgaria and from there to West Berlin.

Bulgarian and Polish diplomats in Bonn were called to the Foreign Ministry on Saturday and asked to help stem the flow in the interests of good relations, the spokesman said.

Bulgarian authorities told authorities in Bonn later Saturday that the first bus loads had been turned back at the Turkish frontier and that refugees would not be allowed to cross Bulgarian territory unless they had valid West German entry visas, he said.

Sources said the plan was aimed at bringing the refugees into West Berlin before Wednesday, when East Germany will stop issuing transit visas to refugees without entry permits for their final destinations.

They said the refugees were to have been driven by bus to Sofia to catch special airline flights to East Berlin or Warsaw, from where they would have taken trains to the West.

More than half the 77,000 refugees who have sought political asylum in West Germany this year have flown first to East Berlin's Schoenefeld airport with East German transit visas and have then crossed through the Berlin Wall.

After pressure from Bonn, East Germany announced Sept. 18 that it would stop issuing the transit visas starting next Wednesday unless refugees had entry permits for their final destinations.

Kinnock Rebuffs U.S. On N-Arms

Reuters

BLACKPOOL, England — Neil Kinnock, the British Labor Party leader, has rejected U.S. criticism of his plan to scrap nuclear weapons and close U.S. nuclear bases.

Labor delegates, encouraged by opinion polls giving the party a 6.5 percentage-point lead over both the Conservative Party and the centrist coalition of the Liberal and Social Democratic parties, gathered Sunday for a week-long annual conference.

Nuclear arms and nuclear energy were expected to be major issues.

Upon his arrival in Blackpool, in northwestern England, on Saturday, Mr. Kinnock made it clear that he would not modify the party's policy of nuclear disarmament despite criticism from Washington.

"If we ask for American missiles to leave, then leave them," he said. "Another country cannot interfere with the life of a democratically elected government."

He was responding to remarks made by the U.S. secretary of defense, Caspar W. Weinberger, and by Richard N. Perle, the U.S. assistant secretary for international security policy, that Labor's policy would undermine NATO.

There is likely to be heated debate in Blackpool over nuclear energy, on which the party is split three ways. While the leadership favors phasing out nuclear power but says it could take decades, leaving members are calling for a shutdown within five years.

In the middle is a group of trade unionists representing the 100,000 workers in the nuclear power industry, which provides nearly 20 percent of Britain's electricity. They are calling for a freeze on new nuclear plants pending a study.

In a television interview Mr. Kinnock indicated Sunday that he did not believe that the remarks of Mr. Weinberger and Mr. Perle were representative of the views of the U.S. administration.

The Liberal Party repudiated the position of its leader, David Steel, at its annual conference last week, declaring against retaining an independent British nuclear deterrent. The action caused a split with the Liberal's Social Democratic partners in the centrist alliance.

East Germany Said to Step Up Guard On West's Envoys and Watch Libyans

By Robert J. McCartney
Washington Post Service

BERLIN — East Germany has increased the protection it provides to U.S. and other diplomats in East Berlin and reportedly has increased monitoring of the Libyan embassy there in an apparent effort to prevent terrorist incidents, according to Western diplomats.

East Germany's Communist authorities took the steps, probably with Soviet backing, after the Libyan embassy in East Berlin was linked to the terrorist bombing on April 5 of a discotheque in West Berlin that killed two persons and injured more than 200, the diplomats said last week. U.S. warplanes bombed Libya in retaliation for the nightclub attack.

The East Germans were embarrassed by the publicity over the discotheque bombing, especially because they are preparing for Bonn's 75th anniversary next year, according to U.S. officials in Bonn and Western diplomats in Berlin.

They want to improve their image," he said. "They certainly don't want East Berlin to be seen as a center of terrorism."

East Berlin police have set up checkpoints to control traffic on several streets in neighborhoods where many foreign diplomats have their homes. A senior U.S. Embassy official now has a 24-hour police guard outside his house; previously, a police car passed occasionally.

In a related development, West Berlin police have begun stopping Libyan and some other Middle Eastern diplomats shortly after they enter West Berlin, the Western diplomats said. The incoming Middle Eastern diplomats are questioned and warned that they "aren't wanted" in West Berlin, the sources said.

In most cases, the diplomats then return to East Berlin.

These new steps, adopted in the spring, mark the first time that the United States, Britain and France have allowed ongoing controls over persons entering the city's western sector. The Western allies, who have been responsible for West Berlin since the end of World War II, previously have been adamant in maintaining West Berlin's status as an open city.

West Berlin's police chief, Manfred Ganschow, said Friday that the new regulations governing Libyans and other unidentified diplomats constituted "a kind of border control" for West Berlin for the first time.

But Western diplomats said the regulations technically were not border controls, as the Libyans and others were not actually barred from entering the western sector.

Berlin is a haven for government-backed extremists because of embassies in East Berlin and easy access to West Berlin. In March and April, both the Libyan and Syrian embassies in East Berlin were implicated in terrorist attacks in West Berlin.

First, the United States made public information obtained by electronic eavesdropping that suggested strongly that the Libyan embassy was aware of plans for the discotheque bombing.

In addition, two Arabs who confessed to bombing the German Arab Friendship Society in West Berlin on March 29 said in police interrogations that they obtained the explosives from the Syrian Embassy in East Berlin.

Mr. Ganschow said he believed the accounts by two Jordanians, Ahmed Nawaf Mansour Hasi and Farouk Salameh, of where they obtained the explosives. The two are expected to go on trial in October or November, and face prison terms of as long as 15 years.

"They didn't speak together after they were arrested, yet both guys told us the same facts, even in the small details," Mr. Ganschow said.

Morocco Said to Seize 4 in Plot to Bomb Synagogue

By Stephen Engelberg
New York Times Service

WASHINGTON — Morocco recently arrested a team of Palestinians who were preparing to bomb a synagogue in Casablanca on the Jewish New Year next week-end, according to U.S. officials.

The officials said neither the affiliations nor the goals of the team were known. They cautioned against linking the incident with any of a recent series of terrorist attacks against Jewish or Western targets.

"We don't know how this fits in, or whether it fits in at all," an administration official said.

Moroccan security forces have been on alert since July, when King Hassan II met Prime Minister Shimon Peres of Israel in Morocco. In August, the Moroccan government

arrested four Arabs — a Palestinian, two Tunisians and a Lebanese Palestinian — on terrorism charges.

Details about the arrests were sketchy. According to administration officials, the Palestinians were carrying explosives and a plan for one of the synagogues in Casablanca.

Officials said it appeared that the assault was being planned for Saturday, when members of the congregation would have gathered to celebrate Rosh Hashanah, the Jewish New Year and one of the holiest days on the Jewish calendar.

Almond Bourzaim, a counselor at the Moroccan Embassy in Washington, said he was not aware of the arrests. He said, however, that his country had been tracing for possible terrorist attacks since Hassan and Mr. Peres met.

Morocco has begun demanding that visitors from some Arab countries obtain visas before they arrive.

"We are trying to protect ourselves as best we can," Mr. Bourzaim said.

There has been open talk in the Arab world of reprisals against Hassan for taking part in any talks with the Israelis. The Syrian daily al-Basrah, for example, warned that the king would be punished for his actions.

Mr. Bourzaim said 15,000 to 20,000 Jews live in Morocco, most of them in Casablanca, a city of three million people. Although many Moroccan Jews have emigrated to Israel, the country's Jewish population is nonetheless viewed as the largest and most influential in the Arab world.

The planned attack against the synagogue comes less than a month after two gunmen attacked a syn-

agogue in Istanbul with machine guns and grenades during a Sabbath service.

Administration officials said the attack on Sept. 6, which left 21 worshippers and two gunmen dead, had been carefully planned. American officials said there were indications that the operation was carried out by forces linked to Abu Nidal, a Palestinian who broke away from Yasser Arafat, chairman of the Palestine Liberation Organization.

Nell C. Livingstone, president of the Institute on Terrorism and Sub-National Conflict, said the Istanbul attack suggested a trend toward terrorism against unguarded targets such as synagogues.

"The bad guys are going after soft targets," he said. "A synagogue is a soft target. You can't turn it into an armed camp, particularly in an Arab country."



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Norway*	N.Kr.	1,650	900	500
Portugal	Bec.	19,000	10,400	5,700
Spain*	Pes.	26,500	14,600	8,000
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100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00

STRAIGHT BONDS

All Currencies Except DM

Am. Security	Yield	Price	Am. Security	Yield	Price
100% Govt	10.00	100.00	100% Govt	10.00	100.00
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100% Govt	10.00	100.00	100% Govt	10.00	100.00

Am. Security	Yield	Price	Am. Security	Yield	Price
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100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00

HIGHEST YIELDS

to Average Life Below 5 Years

Country	Security	Yield
USA	100% Govt	10.00
UK	100% Govt	10.00
FR	100% Govt	10.00

HIGHEST YIELDS

to Average Life Above 5 Years

Country	Security	Yield
USA	100% Govt	10.00
UK	100% Govt	10.00
FR	100% Govt	10.00

HIGHEST CURRENT YIELDS

Country	Security	Yield
USA	100% Govt	10.00
UK	100% Govt	10.00
FR	100% Govt	10.00

ZERO-COUPON BONDS

Sept. 25

Security	Yield	Price	Security	Yield	Price
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00

DM STRAIGHT BONDS

Am. Security	Yield	Price	Am. Security	Yield	Price
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00

FORWARTS-BUYED BONDS OF THE US

Am. Security	Yield	Price	Am. Security	Yield	Price
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00
100% Govt	10.00	100.00	100% Govt	10.00	100.00

Gulf Banks Reflect Impact of Slowdown

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Currencies

By Ken Ferris
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Currencies

By Ken Ferris

The impact of the decision by the Commission of Petroleum Exporting Countries to raise production quotas and cap oil exports has been felt in the oil-rich Middle East. Despite the voluntary OPEC oil price agreement introduced in August, oil prices have fallen sharply. Arab oil producers are now offering discounts on oil to public companies, and have agreed to a 10% reduction in oil prices to the rest of the world.

The impact of the collapse in oil prices to a level of around \$15 a barrel from over \$25 has been felt in the rest of the world. The stable environment in the Middle East has led to a sharp decline in oil prices, and this has led to a sharp decline in oil prices to the rest of the world.

Oil prices have fallen sharply, and this has led to a sharp decline in oil prices to the rest of the world. The impact of the collapse in oil prices to a level of around \$15 a barrel from over \$25 has been felt in the rest of the world.

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BANQUE

Arab Banking

Gulf Banks Reflect Impact of Slowdown

By Olfar Tobamy

CAIRO—A new wave of negative growth is spreading from the Gulf region into neighboring countries and weighing heavily on the banking sector's performance.

Pressure is mounting on authorities responsible for maintaining the standards of the financial institutions' performance to prevent the rapidly deteriorating economic conditions from affecting the banks.

The banks suffered their first blows three years ago when the boom in the Gulf began to wane. The ensuing adjustment entailed cuts in public expenditures, which had fueled the banking sector's spectacular growth.

As the slowdown continued, opportunities for banking activities in project and trade financing narrowed, while banks and entrepreneurs faced the consequences of delays in government payment.

The world oil crisis, with the sharp fall in prices in the first half of this year, sharply affected the Gulf states' economies, which are contracting rapidly.

The dramatic acceleration of these negative trends has had an immediate impact on the region's banks, as reflected in their mid-year results.

The Arab Banking Corporation, which is one of the region's strongest and most prestigious financial institutions, recently published mid-year figures that showed a small increase in assets and loans, a 69-percent increase in loan loss provisions and a 19-percent fall in net profits.

Neighboring countries, whose economies had grown through the remittances of their citizens working temporarily in the Gulf area, faced similar problems. These countries include Egypt, Jordan, North Yemen and, to a lesser extent, Tunisia, Morocco and Lebanon.

The gradual fall in remittances as many expatriates returned home this year because of deteriorating economic conditions in the Gulf has meant a reduction in the inflow of foreign exchange into these countries at a time when trade financing needs grew dramatically.

because of an appetite for imports that had developed over the last decade.

The impact was magnified in Egypt because of its dependence on oil exports as a main source of state income and foreign exchange.

In addition, the banks in these countries are struggling with the tightening of foreign exchange resources.

The emergence of problem loans, with the first signals of the slowdown in the Gulf, has brought under the microscope the role of the central banks in protecting the banks and are the first major test for the Gulf's monetary agencies, pointing up weaknesses in their ability to monitor the banks.

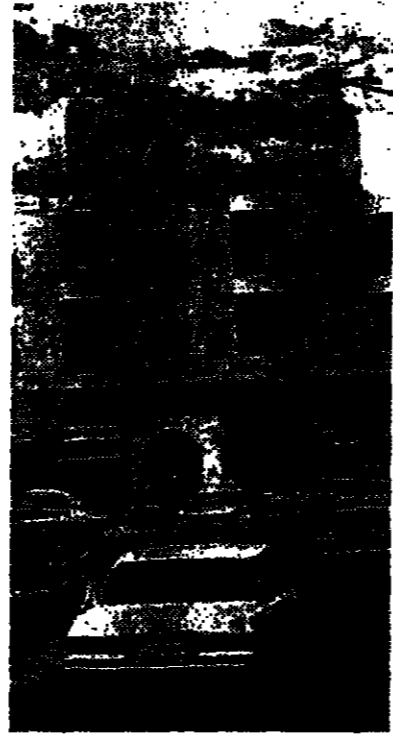
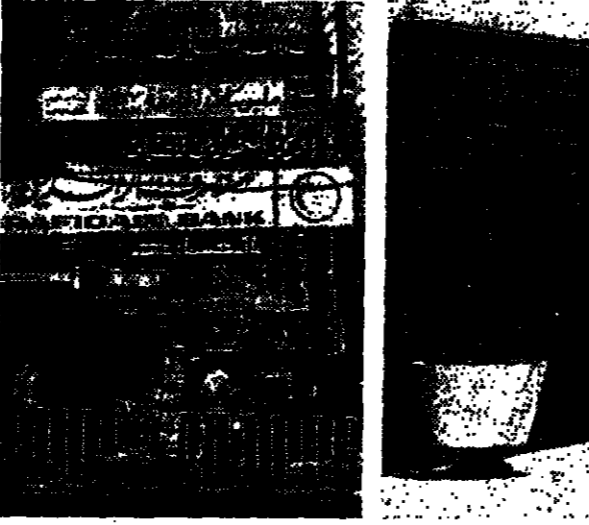
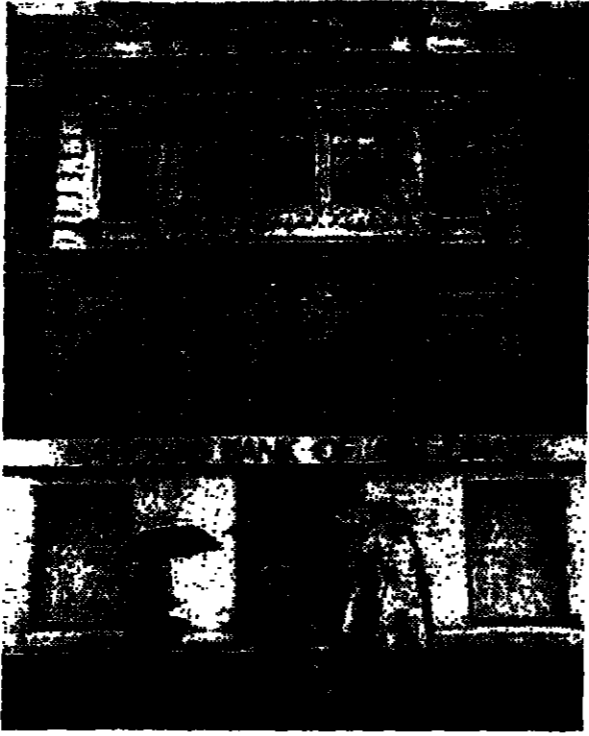
The crucial question of whether these bodies are lenders of last resort has come up repeatedly lately. However, with the exception of the Central Bank of Kuwait, the issue has not been resolved. Thus the extent of the authorities' commitment to the banks in the event of trouble and the limits on their intervention remain unclear.

However, some banks have been bailed out with the help of the central banks or monetary agencies in the United Arab Emirates and Saudi Arabia. Without a legal framework, however, these authorities have been unable to overcome problems concerning Islamic law, with courts ruling in favor of the lender of last resort.

The most decisive and radical steps made to avert a banking crisis were taken by the Central Bank of Kuwait, which is complementing the government's efforts to clean up leftovers from the collapse of the Souk al-Manakh, unofficial stock exchange and help the country's financial institutions survive its repercussions.

The Kuwaiti bank moved last winter to enforce strict provisioning requirements on all banks operating in the country to the dismay of bankers who regarded the loan classification criteria as too harsh. As a result, incomplete published year-end figures have revealed that at least two of the country's five banks were unable to cover the

Continued on page 12



The Higher the Climb, The Harder the Fall

By Kevin Muching

LONDON—To say that there has been a crisis in Arab banking is perhaps only marginally too strong a description, but it is fair to say the last two years have not been particularly kind to scores of Arab financial institutions.

The higher the climb, the harder the fall, and the dramatic rise of the Arab banks onto the international stage on the back of the petrodollar surpluses of the 1970s and subsequent and equally dramatic fall—especially the offshore banks in the Gulf—is no exception to the adage.

But the reversal in fortunes among the Arab institutions should best be kept in the perspective of an inevitable shakeout of a market that was hopelessly overcrowded and big-headed with unrealistic expectations.

There are several unusual aspects of the Arab shakeout. For one, the scarcity of capital was never a problem. Rather what the Arab banks lacked—and to a certain, though diminishing extent, still do—was management expertise and depth, and an operating culture and market franchise.

But even more ironically, the Arab banks always lacked a market base, or at least a market equal to the grandiose capital they were either born with or accrued. The construction boom in their domestic markets could never by definition last more than a few years and the populations were too small and government handouts too large to ever fuel a classic consumer-led lending boom.

Internationally, the syndicated-loan market evaporated just as the banks were becoming increasingly dependent on it for their non-domestic asset growth, and most of the banks have lacked the management capability to adapt to the shift by borrowers and investors to the global capital markets.

The impact has been a shakeout that will leave a few leaner, but battle-hardened and better managed Arab banks. One could even argue that however painful the downturn, it was, nonetheless, the missing element to the evolution of Arab banking.

The downfall has, nevertheless, been dramatic and devastating. In Saudi Arabia, for instance, the consolidated profitability of the dozen commercial banks fell to barely 500 million riyals (\$148 million) last year, three times less than that just the year before, while loan loss provisioning soared to more than 1.2 billion riyals from 700 million riyals.

National Commercial Bank, the kingdom's largest, saw its profits freefall by 80 percent to 99 million riyals in the year ending last September, while its provisions jumped to 3.3 percent of its loan portfolio.

There have been about a dozen bank collapses in the Gulf, especially in the United Arab Emirates and in Kuwait. Analysis estimates that up to half or more of the offshore banks in Bahrain are either unprofitable or there in name only. The perceived credit risk of lending to Arab institutions in the interbank market has risen to the point that all but the handful of first-tier banks are having to pay a hefty premium for their borrowings, if they have any lines at all.

"I just do not think it has bottomed out yet," said Rahnim Habib, a banking analyst at the Geneva-based Capital Intelligence. "There could still be some major shocks. Not necessarily a bank collapse—though that cannot be ruled out, especially in the

U.A.E.—but there will still be a lot of pain and hand wringing."

Capital Intelligence instituted a credit rating system across the spectrum of Arab financial institutions, rating some 250 Arab institutions through eight rankings ranging from a "AAA" to "U."

No Arab bank has managed a triple-A rating and only half a dozen attained the AA rating, among them the highly regarded United Bank of Kuwait in London, National Bank of Kuwait, Gulf International Bank and Saudi International Bank. Arab Banking Corporation slipped down to a Single A due to its Latin American exposure. Al-Bahrain Arab African Bank, which has been having severe problems with its loan portfolio, has been downgraded to a split Single B/U rating.

It is fair to say the last two years have not been kind.

Mr. Habib thinks, however, that the Kuwaiti financial system probably has seen the worst of it. Although the market and its financial institutions will probably never rise to their commanding heights of the late 1970s, the banks that have survived are emerging leaner, with cleaner balance sheets, and with battle-hardened management teams and, often, new board members unencumbered with the legacy of the Souk al-Manakh dealings.

Ironically, their potential emergence from under the debris of the al-Manakh disaster is due in large part to the tough, but politically controversial stance taken by Kuwait's central bank, which made the banks bite the bullet sooner rather than later. But banks in Saudi Arabia and the Emirates still have to provision fully against their bad debts. Saudi American bank, for instance, though one of the best managed banks in the kingdom, nevertheless has barely a 1-percent loan loss provisioning against its loan portfolio.

The result of the shakeout has been a polarization of Arab financial institutions into more distinctively defined tiers toward the extremes of the financial services spectrum, operating either globally or as regional or purely domestic specialty niche firms—in effect, a regional microcosm of the developments in the global markets over the last five years.

The larger, well-capitalized and supported "first tier" banks such as Gulf International, Arab Banking Corporation, National Bank of Kuwait, Saudi International Bank, National Commercial and Riyad Bank, and the National Bank of Abu Dhabi are at one end of the spectrum. They enjoy a firmly entrenched position in the international markets, in both the traditional and commercial banking markets and a toehold in the more difficult fee-earning investment banking services.

At the other end are the specialist firms with particular expertise in niche markets.

Continued on page 13

Currencies: A Wave of Devaluations Follows Collapse in Oil Prices

By Ken Ferris

LONDON—The impact of the decision by the Organization of Petroleum Exporting Countries to abandon production quotas and regain market share is still reverberating through the Middle East despite the voluntary production-cutting agreement introduced on Sept. 1. The oil price collapse has forced Arab oil-producers to accept devaluations, delayed budgets and cuts in public spending as they try to come to terms with sharply reduced oil revenues.

The fall-out from the collapse in oil prices to the current average of around \$15 a barrel from January's \$30 a barrel can be seen clearly in the foreign exchange markets. The stable environment in which most Arab currencies have historically traded has given way to devaluations and downward adjustments in Oman, Saudi Arabia, North Yemen, Kuwait, Syria and Libya this year.

The fundamentally weak currencies, such as the Egyptian, Sudanese and Lebanese pounds, have seen their downward spirals accelerate as revenue has ebbed away with the price of

crude. Jordan, Qatar, Iran, the United Arab Emirates and Bahrain have weathered the oil price slump without resorting to a downgrading of their currencies, but they have been forced to make sharp cuts in public spending.

Saudi Arabia, the largest OPEC producer, has been one of the hardest hit by the reversal in the oil price. The country's oil earnings are expected to drop below \$22 billion this year against \$27 billion in 1985 and \$110 billion in 1981.

Riyadh's assurances that a devaluation would not follow the first postponement of the budget in March proved short-lived. The rial was devalued on Jan. 1 by 2.75 percent to 3.75 riyals to the dollar and the market expects another substantial move this year.

Riyal deposit rates now stand at a large premium to dollar interest rates as dealers continue to reduce long riyal positions ahead of a possible downgrading of the currency. Confidence in the rial has not been helped by the Aug. 4 announcement that the budget will now be delayed until December 21.

Oil prices above \$16 a barrel are needed just to hold Saudi Arabia's trade and budget defi-

cits close to last year's \$20 billion and \$12.3 billion respectively. Previous austerity measures, which cut state spending in fiscal year 1985/86 to only 30 percent of that in fiscal year 1981/82, limit the scope for further budget cuts. And foreign exchange reserves are now some \$40 billion below their level of \$120 billion.

Those factors highlight the pressures for a devaluation, which traders say will be of the order of 10 hats. That would take the rial to 3.85 to the dollar compared to an average rate of 3.36 to the dollar in 1979—the year of the second major oil shock.

The market expects a further devaluation if oil remains between \$10 and \$20 a barrel by the end of this year, said Trevor Bush, foreign exchange and money markets manager at Riyad Bank in London. "The anticipation of a move will put pressure on the currency, which means Saudi interest rates will move even higher." The authorities devalued by less than 3 percent last time, but that was still less than 3 percent, which is not very much when you are trying to correct a large [\$13.5 billion expected this year] current account deficit.

The falling oil price has also pushed Oman into its first devaluation for 13 years, a 10.2-percent move on Jan. 26 to 0.385 Omani rials to the dollar.

However, oil accounts for 92 percent of exports and 84 percent of national income so Oman is almost totally dependent on the oil price for its economic well being. The country suffered a severe reduction in revenue in the first eight months of this year and unless the oil price maintains its recent gains a further currency adjustment may be necessary.

Libya responded to the oil price drop by deferring the 1986 budget and devaluing its currency. The 4.2-percent devaluation announced in March was accompanied by a switch from a dollar to a special drawing rights (SDR) peg, which broke the 0.3 dinar to the dollar link held since 1973. Libya's oil revenues are expected to fall 50 percent from \$10 billion in 1985, but austerity measures imposed since 1982 limit the scope for further cutbacks. That indicates further pressure on the dinar unless oil prices hold on to the gains they have made since they bottomed out in August.

The drop in the oil price has also affected Arab countries that rely on remittances from workers in the Gulf region. For example, a sharp fall in send remittances forced North Yemen to devalue the rial by 10 percent in January to 7.25 rials to the dollar. The currency has since been devalued in stages to 10.5 rials to the dollar.

The Yemeni oil industry is only expected to produce 200,000 barrels a day by 1991, so the oil price collapse has not directly hit government revenues.

However, transfers from the one million Yemenis working overseas have been drastically reduced by the oil-induced economic slowdown in other Arab countries. In the first quarter of 1986 remittances were down 30 percent, to 872 million rials from the fourth quarter in 1985.

The Central Bank of Yemen has responded to recent speculation against the rial by cracking down on unauthorized currency traders. It has also stopped issuing licenses for new foreign exchange dealers. Nevertheless, traders believe the moves are unlikely to reverse the pressure on the currency, which is reflected in a

25-percent black-market premium over the official rate.

Falling remittances have also affected Jordan, which saw such receipts drop for the first time in 1985 to 403 million Jordanian dinars from 475 million dinars in 1984. A further significant decline is expected this year as the Gulf countries cut back their foreign labor forces.

However, the oil price slump is more of a mixed blessing for Jordan, which benefits from a lower oil import bill. Crude-oil liftings, which accounted for 18 percent of import costs in 1985, fell to 39 million dinars in the first quarter of this year, against 50 million dinars in the same period of 1985. That trend is expected to help to narrow the trade deficit to 560 million dinars this year.

The outlook for the Arab currencies is broadly tied up with the degree to which the oil price recovery can be prolonged. That depends on whether OPEC decides at its Oct. 6 meeting in Geneva to continue holding back production after a review of the two-month accord currently in operation to limit output to 16.7 million barrels a day.

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A SPECIAL REPORT

The Shobokshi Empire: Case Study in Work-Outs

By Kevin Muchring

LONDON — After nearly a decade of frenzied lending to the oil-fueled boom economies of the Gulf, the days of judgment for the dozens of international and domestic banks arrived with a vengeance over the last two years with the surge in nonperforming loans.

Some banks saw the handwriting on the wall early enough and tightened up before the crash. Citibank, for example, is notably absent from the list of banks with the worst bad loans on their books. National Bank of Kuwait also began reducing its vulnerability to the ravages of the Souk al-Manakh even before it began its downward spiral in 1982.

But dozens of international, offshore Arab and domestic banks did not — or saw their best clients dragged down by the region's downward pull — and found themselves devoting more and more of their management time to defend and bolster deteriorating loan portfolios through loan work-outs and reschedulings.

The types of loan work-outs in the Gulf have run the gamut, ranging from a pure financial rescheduling, a mix of corporate restructuring and loan rescheduling, the controlled liquidation and the extreme futility of the lawsuit and "every man for himself."

But the loan work-out in the Gulf, where for the most part, a legal infrastructure does not exist and the prevailing religion and culture chafe against what is considered the Western import of interest, is an entirely different affair than in Rio de Janeiro or Des Moines, Iowa.

Discovering assets is often a Herculean task. And once found, the real work begins in actually disposing of them, especially in the Gulf itself.

The rise and subsequent fall of the Shobokshi empire, and the negotiations to whittle its mammoth \$683 million of debt into a smaller repayable figure, provides what is perhaps the most graphic illustration of the immense complications and difficulties of a Mideast loan work-out.

The agreement between the Shobokshi Group, its financial adviser, Morgan Stanley & Co., and 83 creditor banks led by First Chicago has, in fact, yet to be finalized after more than two years of negotiations. But it has contained several flashes of inspiration and creativity and could well become a precedent-setting showcase of how to, or

even how not to, do a Middle East work-out.

The Shobokshi group was established in Jeddah, Saudi Arabia, in 1956 by Hussein Shobokshi. The patriarch of the family ran what was essentially a trading company through the 1950s and 1960s, while the two sons, Fahad and Ali, went to Cairo for their education in business administration.

The small but profitable operations were quickly transformed

This agreement could well become a precedent-setting showcase.

during the boom years of the 1970s by the two brothers after their return to Jeddah into a diversified conglomerate centered around the contracting arm, the General Agency Corporation.

By 1982, GAC held assets estimated at nearly \$856 million, while turnover reached about \$300 million, more than double that of 1980. But like many of the rapidly expanding companies in the Gulf at the time, the group was operating with scant internal financial controls with funds earmarked for projects often being channeled into real-estate investments or an assortment of investments abroad.

The strong ties both brothers held to Egypt, for instance, led to several major investments in Cairo that soured. Government cutbacks in payments, and the beginning of the slowdown in the Saudi economy in 1982 and early 1983 was quickly felt by the group.

Yet, the Shobokshis were able to continue borrowing offshore. Debt had accumulated to about \$294 million by the end of 1981. In 1982, another \$75-million loan to restructure existing short-term debt was raised through a syndicate of Bahrain-based banks. In 1983, First Chicago pressed ahead with a

\$106.3-million, five-part syndication. In May 1984, another \$46 million was raised from an international syndicate of offshore banks.

But it was too late to stem or hide the losses. Several interest repayment dates were missed in mid-1984, which in turn triggered cross default mechanisms of various loans outstanding. The first meeting between the Shobokshis and the major creditors were held in London in July 1984. Morgan Stanley was also brought in as an adviser to the borrower and a 90-day interest moratorium began in September.

The banks first tried a "macro approach" in which all the debt would be lumped together and the banks would then contribute fresh funding on a pro-rata basis to keep the company afloat, namely through maintaining the existing contracts. The banks with general unsecured loans, however, balked at the thought of injecting fresh funding to support projects in which the cash flow would essentially flow through the accounts of other banks.

By November, the tact was switched to a project-oriented basis in which the project lenders agreed to extend fresh financings to see their projects through. They also assumed direct responsibility for the financing of each project.

In February 1985, Morgan Stanley asked for a further interest moratorium until August. The same month, the creditor banks formed the seven-bank steering committee chaired by First Chicago.

The key meeting of the rescheduling took place in London in March, when Morgan laid out the broad outlines of the rescheduling agreement. Three crucial meetings followed in August and October and in March this year.

There were often heated criticisms of Morgan Stanley's proposals, but for the most part, the agreement the banks hope to sign later this year is in fact essentially the same as that first offered to the banks about 18 months before in March 1985.

The subsequent meetings were primarily to iron out the fine print and a key objection of the banks to a "no recourse" clause in the event of nonpayment, which in fact was only slightly modified in the current agreement. The bill was almost always with the banks, which had split into two camps with diverging interests in the deal.

According to some of the loan documents, the Shobokshi Group's total liabilities in February 1985



View of Kuwait's new city center.

were \$685 million. The bulk of this was in overdrafts, working capital loans and letters of credit and refinancings totaling about \$552 million at the then prevailing exchange rate. The remaining \$133 million were in off-balance-sheet contingencies such as performance and progress payment guarantees and bonds.

The liabilities were spread across 85 banks, the largest being First Chicago, and into two broad categories of project related and general purpose, unsecured loans. While some banks such as First Chicago were in both categories, the other 84 banks were roughly split into the two roughly equal camps of project secured and general purpose unsecured lenders.

The loans and guarantees of the project lenders for 10 major projects totaled just over \$285 million, a third of which was in contingencies. The general purpose lenders held the other \$400 million, or 58 percent of the total debt, the lion's share of \$359 million was unsecured. It was these different types of exposure and perception of interest that have made the rescheduling so difficult and extensively delayed.

The repayment plan itself consists of targets that would be met through cash generated from three sources. The first is the completion

of projects that would liquidate the overhang of the guarantee and bonding contingencies. Second, some excess cash flow would be generated through the projects, and third, additional funds would be raised through the disposal of non-strategic assets. The repayments would be stretched over a seven- to nine-year period to 1992 or 1994, depending on Shobokshi's ability to raise cash.

The repayment mechanism is complicated, but pared to its bones essentially revolves around a "trust" out of which repayments would be disbursed to the banks on a pro-rata basis in two stages. The first stage would be split between payments to the general purpose lenders out of the trust, and the project lenders receiving only some payments but their contingent liabilities liquidated through the completion of the projects.

By June 1986, the date of the last completed project, the contingent liabilities would be eliminated and the remaining project cash debts "offloaded" into the general unsecured pool of debt and paid on the best deal possible. But before they agree to a rescheduling they want Egypt to agree to the terms of an IMF economic adjustment program. This is a standard condition for Paris Club reschedulings. That could be hard, Egypt has

Western Creditors Grapple With Egypt's Unwieldy Debt

By Alex Ferguson

LONDON — Egypt is teetering on the brink of bankruptcy, again. During the hot months of August and September, World Bank and IMF teams flew in and out of Cairo, grappling with the details of a solution to the country's problems. Egypt wants an IMF standby credit to help the country's balance of payments.

And on Sept. 17, Egypt was on the agenda of the Paris Club, the forum for Western national export credit agencies. All have, to their regret, insured and financed exports to Egypt. At issue at the meetings were the vexed questions of how long the country can carry on paying its debts and what to do when the payments stop. Most of Egypt's larger debtors, Britain, France and West Germany, reported alarming payment arrears.

Press reports have speculated for months on when Egypt will finally reschedule its debts, which are now estimated at \$36 billion. Many observers are betting that it will be this year. Only many of them were saying the same thing last year.

The problems have hardly changed. Egypt relies heavily for its foreign exchange earnings on oil, workers remittance and dues from the Suez canal. These three earners fueled the economic growth of the 1970s. None of them are bringing the same amounts of cash in as they used to, although canal dues have recently increased again.

The problems may remain same but this time Egypt will be lucky to avoid a rescheduling, argue bankers. This is not only due to the seriousness of the situation, but also because the Egyptians have become more realistic. The government has recognized that it is entering a three-year debt hump, when payments peak. This hump is not caused by recent borrowings. It has always been there, only Egypt did not know it. Better accounting methods, encouraged by the IMF and World Bank, have revealed the situation to the government and encouraged it to think of more long-term solutions.

The main problem now is to decide the form of rescheduling. The IMF told Egypt that it needed a multilateral rescheduling. Its various national creditors agree. They would prefer to negotiate with Egypt as a unified front to exact the best deal possible. But before they agree to a rescheduling they want Egypt to agree to the terms of an IMF economic adjustment program. This is a standard condition for Paris Club reschedulings. That could be hard, Egypt has

During the hot months, World Bank and IMF teams flew in and out of Cairo.

been talking to the IMF for years about reforming its economic system. Even though it would like a standby facility, the government finds it hard to meet the IMF demand to dismantle the country's multilateral exchange rate system. Pegged rates are used to calculate import dues and payments for basic commodities. They are well below the rates quoted on Egypt's thriving black market.

Egypt is also reluctant to reschedule multilaterally. It prefers picking off creditors, one by one. On this front, Egypt can already notch up one success: one bilateral rescheduling last year with France on debts owed for military purchases.

Similar deals are unlikely on pure trade debts. But bankers are pleased to see that Egypt is at least doing something about its military debts. "In many ways that's the key," says a London banker. "If they sort that out, it mitigates the burden considerably."

Military assistance takes up most of the aid funds Egypt receives. In the fiscal year of 1985 a total of \$1.9 billion was provided by donors. Of this \$1.175 billion is thought to be for military purposes. The United States provided by far the most aid with around \$1.2 billion. Rescheduling the total of \$4.55 billion owed to the United States would be a big step, as arrears on interest are now under the \$300-million mark.

Egypt has complained about the high interest rates it pays on its U.S. debt. The rates are high because they are the fixed rates used for government subsidized export credits under guidelines set by the OECD. These are adjusted every six months, according to average bond yields. Over the last year the rates have fallen by over 2 percent. But Egypt is still paying at higher, fixed rates of interest.

Military debts to the Soviet Union have been virtually written off. Payments on \$3.4 billion were suspended in 1977. A gloomy future has not stopped Egypt continuing to be a big export market. Major projects, like the \$1 billion El-Dabaan nuclear plant,



Prime Minister Mubarak...

may be pushed back year after year, but smaller trade deals continue, even on credit.

The Egyptian government has set rules on how trade is to be transacted. All private sector imports have to be paid by letters of credit. Public sector imports can be done through a bank collection.

Payment delays are a bane. These are a feature of exporting to Egypt and are now running up to six months after due date. Banks confirming (discounting for cash) letters of credit for Egypt now build in the payments delays into their charges to compensate for receiving their money late.

This has meant that the cost for exporting on credit to Egypt has risen, finding the bank that will do Egypt is becoming harder and harder.

Jack Killick runs the Export Credits Clearing House, which specializes in placing trade credits with banks in the City of London. "Under present circumstances it is not surprising that most banks have closed down on new credit exposures for Egypt. Nevertheless there is still some capacity in the City and Letters of Credit confirmations can be arranged for 540 to 720 days. Prices vary widely."

Another problem facing exporters is that not all Egyptian banks are acceptable to foreign banks. Until 1974, when the sector was liberalized, four state banks enjoyed a virtual monopoly: Bank of Alexandria, Banque du Caire, Bank Misr and the National Bank of Egypt. Today there are around 70 investment companies and banks, although the big four still dominate commercial banking and new local banks.

Choosing the right bank makes a big difference to how quickly foreign exchange is realized. Many are wary of the inefficiency of the state banks. And few will touch a transaction involving the Bank of Alexandria. It has a reputation for slowing things up. "Add 60 days for incompetence," says one foreign banker. And those 60 days are on top of the six months that it can take a foreign currency payment to work its way through the system.

Still less encouraged by the pattern of payments is a foreign bank's credit department. The rate of non-payment is estimated to be over 20 percent. In 1985, the Egyptian government's foreign exchange earnings were \$1.9 billion, but only \$1.2 billion was received. The rest was in arrears. The Egyptian government's foreign exchange earnings were \$1.9 billion, but only \$1.2 billion was received. The rest was in arrears.

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For Algeria, Sharp Drop in Export Income

By Francis Ghiles

ALGIERS — Algeria's export income, 98 percent of which is derived from the sale of hydrocarbons, faces a massive decline this year. The halving of the price of oil and the sharp decline of the dollar, the currency in which oil and gas is traded, will cut the country's foreign purchasing power by about 40 percent.

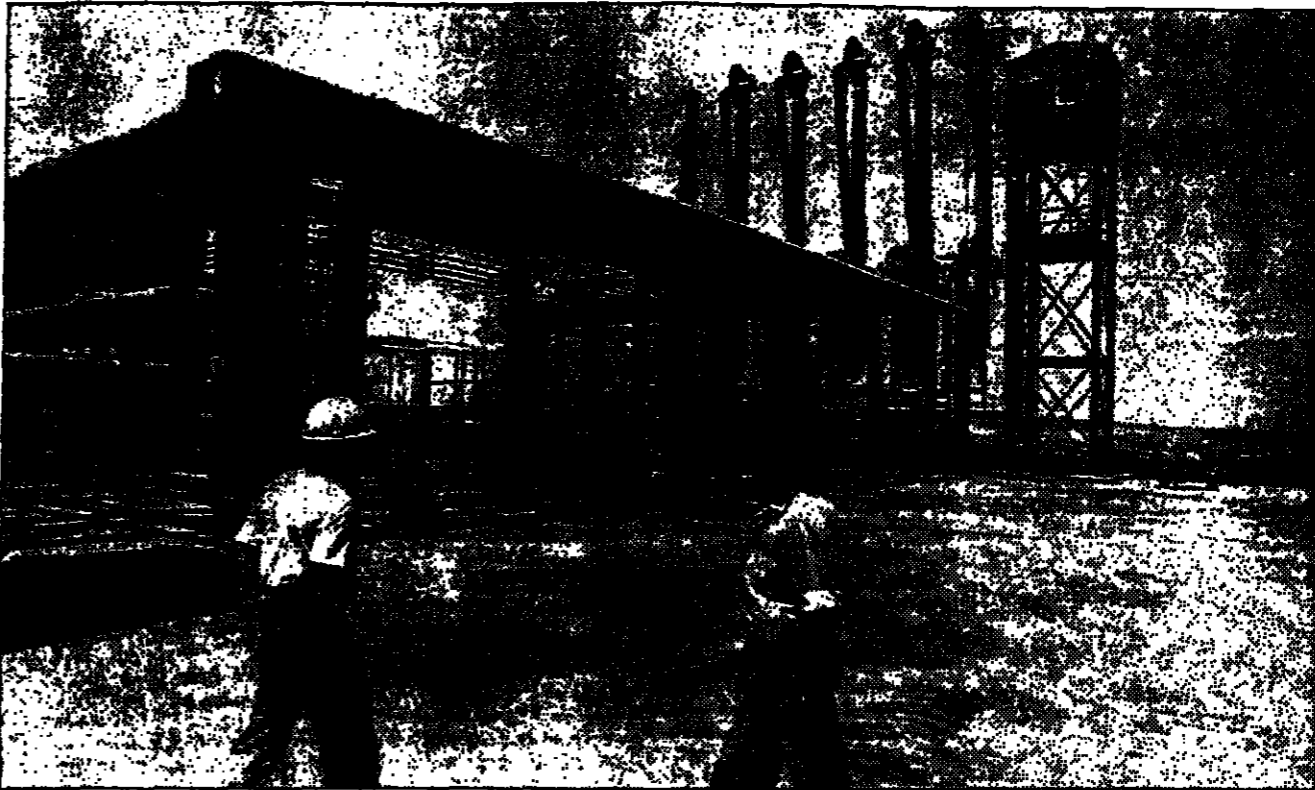
Stringent measures were announced last spring, which have cut government current expenditure and investment by one quarter and aim to reduce imports by at least 20 percent from last year's total of 48 billion dinars (\$10.3 billion).

Quite apart from the scaling down and postponing of major projects — the Algiers metro will probably not see the light of day before the next decade — the decline in foreign income has forced the authorities to increase many prices, although those of basic food staples have not so far been affected. It has also resulted in a number of shortages, more keenly felt in the capital of Algiers.

The authorities asked the population to refrain from sacrificing a lamb as is the tradition for the Eid el-Khobir feast last August. The present shortage in income does, however, face the authorities with some difficult choices. All talk of liberalizing the economy since 1981, of allowing the private sector more freedom, have not led so far to any fundamental changes in the very bureaucratic nature of central government control.

It is significant that Algeria still boasts one of the most restrictive joint-venture laws in the world. When defending a new and more realistic bill in front of the National Assembly last August, the minister of finance, Abdel Aziz Khelil, was overruled on the proposition that Algerian state companies might be allowed to hold less than 51 percent of equity. The parliamentary debate was not preceded by any debate in the press or in the ruling Front de Liberation National, where it probably stood little chance of being accepted. So fierce is the nationalistic streak and vested interest of many of its members.

However, if the country's foreign income does not recover in 1987 something is going to have to give. Not a few Algerians are secretly nursing the hope that sheer necessity will force President Chadli Bendjedid to take much bolder measures than have been taken so far. The room for maneuver is narrow, but it does exist. Algeria's foreign debt burden is heavy, but unlike many of its Third World peers, Algerian leaders sought, after 1979, to avoid falling into the debt trap, that is the situation where foreign



The gas-loading dock in Arzew, Algeria.

will climb sharply this year. Reserves doubled to \$2.8 billion last year and do not appear to have been drawn down substantially since.

Algeria still has the capacity to raise money in the international capital markets, although at a higher price. But the banks still favor the archaic method of syndicated credits and resist the many more sophisticated — and cheaper for the borrower — ways of raising funds.

Countertrade has been carried out on a wider scale this year, and concessional financing was eagerly sought. The costs of such a policy, particularly in the months before the posted OPEC price for oil fell into line with the market price were heavy for the Algerian party in the first instance, and for foreign companies in the second. Delays in payments of imports do not appear to have increased unduly.

The centralized system has allowed Algeria to limit the damage to its foreign finances. Algeria had a trade surplus of 16 billion dinars in 1985, while the deficit on services was reduced to a minimum. But last year's \$200-million current account deficit is expected to increase tenfold this year.

Until last year Algeria was spared any major decline in its foreign income because it had divers-

fied its hydrocarbon industry away from its dwindling oil reserves to emphasize its vast natural gas reserves. Oil, gas, liquefied petroleum gas and condensates each accounted for about one quarter of its foreign income. However, this year's fall in oil prices is also forcing Algeria to concede much lower prices on gas to its major European clients and has forced Sonatrach, the oil and gas monopoly, to get the National Assembly to approve a new law on hydrocarbon exploration that relaxes the restrictive provisions of the previous law.

The belt tightening of recent months has served its purpose but cannot replace more fundamental changes. There is no indication that the government wishes to relinquish its monopoly of foreign trade nor cut the value of the dinar, which had been allowed to move up with the dollar after 1981.

The value of the dinar is a major deterrent to developing nonoil exports, be they wine, shoes or pig iron. To unshackle some sectors of its economy, to liberalize and simplify rules is the major challenge the Algerian government faces today. The consequences of little or no growth in the years to come will be measured in jobs — over 200,000 are needed every year — incomes and ultimately social peace and political stability.



Former Prime Minister Mohammed Mzali, whose dismissal by President Habib Bourguiba of Tunisia in July has raised considerable political uncertainty in the country.

Austerity Measures Set By New Tunisian Leader

By Francis Ghiles

TUNIS — The Tunisian National Assembly was recalled in August for a special session to hear Prime Minister Rachid Sfar announce key austerity measures. This was Mr. Sfar's first major speech, coming a little over one month after his appointment as prime minister by the 83-year-old head of state, Habib Bourguiba.

Political fears are magnified by the parlous state of the country's external finances.

Considerable uncertainty has been generated in the country by the president's decision to divorce his second wife, Wassila, and dismiss his former prime minister, Mohammed Mzali. Both were at the heart of powerful networks of senior Tunisians, many of whose members are further threatened by the campaign against corruption that was launched earlier this year by the head of state.

A number of people have been arrested, such as Mr. Mzali's son, Moktar Mzali, or condemned for alleged malpractices, such as Tewfik Turgeense, the former head of the International Union of Banks and Mrs. Bourguiba's son-in-law, Mehdi Mzali. Mzali, the former first lady, now in exile in the United States, and the former prime minister might be brought to trial.

Such fears are magnified by the parlous state of the country's external finances. The deficit on the current account is expected to increase by 150 million dinars (\$20 million) to 640 million dinars this year compared with last year, while the balance of trade is expected to move further into the red, to about 965 million dinars.

The foreign debt, meanwhile, will increase from 3.18 billion dinars to 3.73 billion dinars, and the budget deficit will reach 240 million dinars this year, 3.3 percent of GDP, against 3.2 percent in 1985.

The country's economy has been buffeted this year by three major factors: the plummeting prices on crude oil, which last year still accounted for over one-third of Tunisia's foreign income, the sharp decline in tourist receipts following the U.S. bombing raid of the Libyan capital of Tripoli in April and a disastrous crop due to drought.

Overall, the loss of foreign earnings is estimated at \$300 million while the budget shortfall will amount to 175 million dinars.

In his speech the prime minister announced immediate measures to restrain spending and, thus, avoid the budget deficit getting out of hand. State expenditure will be reduced by 36 million dinars, most of which will be on the capital account, to 2,392 billion dinars.

This figure may appear modest but the initial budget for this year only represented a 1-percent increase in real terms on the 1985 figure, and this figure does not include debt-service payments. When set against the 2.4-percent annual increase in population, these figures speak of austerity — if not deflation.

The continuing reduction in subsidies on basic foodstuffs, which will cost the state 220 million dinars in 1986, against 260 million in 1984, the fewer new jobs on offer this year and the loss of jobs in the private sector are already making daily life tougher for many Tunisians.

Yet, earlier this summer, a confidential document given to the Council of Ministers concluded that the option of simply cutting back imports to avoid increasing the trade deficit would slow economic growth and fail to address Tunisia's structural problems.

Mr. Sfar and the minister of finance and planning, Issam Khelil, are aware of this problem. Mr. Khelil has been Tunisia's negotiator with the International Monetary Fund and the World Bank for the past two and a half years. Both organizations have privately approved the Tunisian austerity measures and both are trying to help the country over its present difficulties.

Beyond the \$225 million in structural readjustment loans that the World Bank will extend to Tunisia's industrial and farming sector later this year, the IMF will allow Tunisia to draw its first part of 30 million dinars and will extend 115 million dinars of compensatory finance — available because of the sharp fall in the country's exports.

The IMF and the World Bank have been critical of Tunisian economic management in recent years and have pressed the government to address what they feel are major weaknesses.

A World Bank report during the summer highlighted what it felt were major vulnerabilities: large wage increases in the early 1980s that were not matched by productivity gains, a growth in consumption that until last year was greater than that of GDP, investments that were too capital-intensive and not always discriminating, too high tariff barriers and overinvestment by the private sector in real estate and building.

Beyond the austerity measures announced in August, the new Tunisian government has sought to address some of the issues raised by the World Bank report, criticism of which certain ministers, senior civil servants and bankers have been well aware for some time.

Apart from trimming subsidies — while ensuring that the poorest families are provided for — the government has also decided to cut maximum tariff levels from more

than 100 percent today to 50 percent in 1987 and, with luck, to 25 percent by 1991.

Prices of industrial products will be freed progressively, with about one-third of all such goods benefiting from such measures this year. Imports will be freed for those companies that export at least 25 percent of their production.

These are bold measures, especially since much of Tunisia's private industry has never really had to compete in international markets and is backed by grants from the state and can afford to delay repayment on many of the loans contracted from the banks, particularly in the important tourist and hotel sector.

Liberalization and privatization are brave words, and to date the state has been an unwilling player. For example, it is prepared to sell a stake of its shares in, say, Tunis Air, but refuses to allow any banks a say in running the operation.

Many of Tunisia's older banks are so top heavy with unrealizable assets that they are unlikely to expect them to show interest in acquiring new ones. The more recently set up Tunisian Arab banks, such as Banque Tuniso-Koweïtienne de Développement and Saoud (joint ventures with Kuwait or Saudi Arabia) or Beit Ettamwil Saudi Tunisi, an 80-percent privately owned Saudi Islamic bank, might prove to be keener players.

The thrust of the World Bank recommendations point to more rational investment, more transparent accounting and wage increases based strictly on productivity gains.

With hard currency reserves at a very low level, liberalizing the management of the economy presents a major challenge, especially since the central bank is reluctant to borrow further from international banks.

The greatest challenge, however, comes from the country's current political uncertainty and is very unsettling for the business community and civil service.

Nevertheless, the authorities successfully devalued the dinar by 12 percent against the French franc between January and June of this year and held price increases during the first seven months of 1986 to 0.4 percent, against 2.8 percent in 1985 and 4.2 percent in 1984.

Selling austerity and reform to 7.3 million Tunisians who are less and less party to their masters' political games is a difficult task. But it is one that Mr. Sfar's government might just pull off.



Algeria's President Chadli Bendjedid.

debt payments dictate every economic move. Algeria's foreign debt reached \$17 billion last year and is expected to rise by a further \$500 million to \$1 billion this year, while servicing it cost \$3.8 billion last year and about the same in 1986. A debt-service ratio of just over one-third of exports of goods and services



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A SPECIAL REPORT

For Morocco, A Reprieve From Pressures

By Francis Ghiles

RABAT — Pleasant rain, the collapse in the price of oil, a lower dollar and the decline in U.S. interest rates have provided the Moroccan government with a much-needed breathing period.

In addition, King Hassan II does not appear to have taken advantage of these factors to relax the austerity program, which Morocco, under the aegis of the International Monetary Fund and the World Bank, has been pursuing for the past three years.

The strain in relations between the IMF and Rabat, which earlier this year led to the suspension of a 200-million special drawing right granted to Morocco 12 months ago, appears to have eased as negotiations get under way this month for a new IMF standby credit.

The previous standby credit was suspended after Morocco failed to meet the economic targets agreed to with the IMF — amid the kind of recommitment that has become customary in such circumstances.

Senior officials in Rabat argue that they cannot undertake reforms too fast at the risk of undermining the king's authority and threatening social peace.

IMF and World Bank officials, however, would prefer that Morocco not agree to targets that it cannot realistically meet and then find

itself in no position to honor their commitments.

This year's report from the Banque du Maroc, the central bank, insists that whatever the progress Morocco may have made toward reform, now is not the time to relax the efforts.

It expressed concern about the continued high level of private consumption and the low level of savings, the latter despite the fact that last year, for the first time in 30 years, Moroccans could earn a real return on their bank deposits.

Morocco's gross domestic product rose by 4.3 percent last year. That was double the figure for 1984 and the best result since 1979.

A good cereal crop was a major reason for this result and was all the more important because half the population lives on the land. A record crop this year will further help growth.

Government spending did, however, increase by one-third, although investment was the same as in 1984. The budget deficit was trimmed, but the state still owes Moroccan companies at least 9 billion dirhams (\$1.04 billion).

Last year's money supply increased by 14 percent, well above target, but the Banque du Maroc insists that the 7.7-percent inflation rate is proof that all is under control.



King Hassan II of Morocco.

The current account deficit, meanwhile, was cut from 11.8 percent to 7.7 percent of GDP and could well be reduced by half this year because of the economic improvements. Last year's trade deficit still amounts to four-fifths of the country's exports.

The overall deficit on the foreign account and interest on foreign debt remain well above what Morocco earns from tourism and remittances from Moroccan workers overseas. Both of these rose sharply in 1985.

Other important reforms have included a liberalization of trade, with 85 percent of all imports now free and a cut in the maximum tariff to 60 percent.

Abolishing the export monopoly of the Office de Commercialisation et d'Exportation was a move in the direction much sought by the IMF and the World Bank.

Despite a 13.8-percent increase in exports, which in real terms is less impressive once the continued devaluation of the dirham is taken into account, terms of trade continued to decline, not the least because of the fall in the price of phosphates and phosphoric acid. Morocco is the world's largest phosphate exporter.

In addition, European Community restrictions have hurt Moroccan exporters, particularly of fruit, vegetables and certain leathers and textiles, since Europe accounts for the bulk of the kingdom's trade.

The absence of relations with Algeria, once Morocco's major market, weighs heavily. The dispute between the two countries over the future of the Western Sahara, whose defense is costly to Morocco,

shows little sign of being resolved soon.

The Moroccan foreign debt, which has been effectively rescheduled for the past three years, is \$14 billion, which is more than 100 percent of GDP. Debt repayments this year will cost \$2.1 billion, and Morocco can count on \$1.7 billion worth of relief.

The country has drawn 440 percent of its quota with the IMF, a higher figure than any country other than Sudan and Jamaica. Agreement on a new standby credit is vital, not the least because the banks might lend Morocco new funds.

However, U.S. banks are unhappy that the \$450 million worth of bankers' acceptances and advances they have outstanding are considered by Rabat as working capital rather than repaid regularly and redrawn.

The introduction of a value-added tax last April, which hurt wholesalers who hardly pay taxes, and the raising of electricity, telephone and water bills that many well-connected people never pay, suggest that the spirit of reform is not dead.

But getting results from the National Association for Investments, which manages a huge portfolio of state investments, is vital.

As he tries to negotiate a new standby credit with the IMF this fall, the new minister of finance, Mohammed Berrada, whose experience to date has been confined to the private sector and university lecturing, faces his first major challenge.

The consequence of a failure is something most senior Moroccans do not believe they will have to face.

Trade, Project Financing Slump

By Alex Ferguson

LONDON — Now hardly seems the time for Arab banks to develop their expertise in trade and project finance. Major projects are hard to find nowadays. Every developing country has them, but most cannot afford them. And the Middle East, where Arab banks are at home, is the market where the biggest slump in both trade and projects seems to have happened.

West German companies, like Lurgi and Krupp Polysius, made a killing in the 1970s and early 1980s out of huge turnkey plants in Arab markets.

Business today is a fraction of what it was. One only has to look at the 1985 results of Hermes, West Germany's export credit insurer, which guarantees turnkey contractors against the default of a buyer. These show that in 1982 Hermes insured 54 deals, each worth more than 100 million Deutsche marks (\$49 million) and with a total value of 17.5 billion marks. Last year a paltry nine deals were covered, worth 3.1 billion marks.

The crash of the oil price, which overnight turned extravagant Middle Eastern governments into penny pinchers, is cited as the major cause of the project market's decline.

Paradoxically, the hard times that lie ahead for the region offer greater opportunities for Arab banks.

The Middle East is turning from a cash to a credit market. Many foreign banks that opened in the Gulf during the 1970s have left. Those that remain are wary. With bad debts rising, creditors are discovering that recourse to Islamic law is no foolproof way of recovering what is owed to them. Credit checking is the only answer. And the Arab banks with their local contacts stand a better chance of assessing a potentially bankrupt debtor.

But they will have to get better at it. Bankers estimate that in Saudi Arabia around 25 percent of domestic loans outstanding are classified as nonperforming — meaning that they are not being repaid. A similar proportion is given for bank lending in the United Arab Emirates and Kuwait.

Difficulties at home have not stopped Arab banks expanding their international activities. With trade and commercial banking as their basic business, developing into project financing is the next natural step. More sophisticated means of investment and merchant banking need greater investment and expertise, in any case, saturated with capital.

"If a Wall Street bank has 20 Eurobond specialists, then we have

Oil Decline Curbs Projects

Project financing, at its height in 1973, started to decline as oil output began to fall in 1981, and even further in 1983, when production programming was instituted.

		(millions of barrels per day)			
		1973	1981	1983	1985
OPEC Members	Algeria	1.077	.798	.661	.632
	Iraq	2.018	.897	1.099	1.427
	Kuwait	3.020	1.130	1.05	1.01
	Libya	2.174	1.218	1.03	1.03
	Qatar	.570	.405	.294	.296
	Saudi Arabia	7.596	9.80	4.56	3.3
Non-OPEC Members	UAE	1.532	1.502	1.11	1.2
	Bahrain	.068	.044	.042	.042
	Egypt	.165	.603	.682	.871
	Tunisia	.082	.111	.115	.120
	Oman	.294	.328	.389	.490
Syria	.105	.163	.161	.162	

Source: OPEC

two," an Arab banker said. "When we want capital markets expertise then we become their customers. But when their clients are bidding for a Yemen pipeline, it's a different story."

Saudi American Bank and National Commercial Bank of Saudi Arabia have recently received banking licenses to start business in London. Both are looking at project finance as an important part of their future operations.

Other banks have been after the business for longer. Most are multinational Arab banks, like Union de Banques Arabes et Francaises (UBAF), Gulf International Bank and the Arab Banking Corporation.

They distinguish themselves by looking at business in any part of the Arab world, many finance deals that Western banks would run a mile from. They have corresponding lines with Iraq's Rafidain Bank. This can help Western banks.

The Zurich-based Finanz AG claims to have recently financed a one-year credit for an Egyptian exporter to Iraq, with repayments on the promissory notes guaranteed by a major Arab bank. The deal is such a rarity today, with Iraq defaulting on most of its repayments, that Finanz AG refused to give the Arab bank's name.

But in project finance, Arab banks have the reputation of taking the back seat. They are not seen as arrangers, but simply as the provid-

ers of funds when loans are raised. It is the labor-intensive work of arranging deals, where fees are earned from advisory work, that is in the forefront of project finance business. Chipping in with the funds simply means responding to a syndication telex. The rewards are correspondingly less.

Arab banks are becoming more visible in project finance. Their biggest coup this year was the world co-financing for the Kayraktepe dam project in Turkey. World Bank co-financings are credits divided into A loans, taken by commercial banks, and smaller B loans provided by the World Bank to stretch maturities for the borrower.

Co-financings are designed to tempt banks into lending to developing countries. To date, no debtor has defaulted on a World Bank loan.

But with the Kayraktepe project many banks were not so sure. They were not convinced that the loan was really being used for the dam and thought that its real purpose was to help Turkey's balance of payments.

The Arab Banking Corporation bid aggressively for the mandate to lead manage the loan. To win the deal it agreed to underwrite the financing completely. That meant that if ABC could not find enough banks willing to take a slice of the loan, then it would contribute itself. The Turkish treasury was therefore sold a presyndicated deal.

This meant that the large amount raised, around \$200 million, would not interfere with other Turkish borrowing.

Turkey is a project market that Arab bankers take seriously. They have financed other major projects. Arab Bank joined Italian and American banks to raise \$263 million to finance the controversial bridge contract to a Japanese-Italian consortium. Arab Petroleum Investments Corporation joined in the \$257-million presyndicated deal for the Turkish portion of the Iraq pipeline.

Turkey's predominance as a major market has not meant that others are neglected. French and West German consortiums are currently competing for the \$210-million Casablanca water treatment project. Both have large Arab banks providing finance. Abu Dhabi is installing a \$150-million television and telecommunications network. And in Bahrain, the country's aluminum company is expanding its facilities, which will need between \$35 million to \$40 million worth of finance.

Another area that Arab banks are watching is aircraft finance. Gulf Air, to take just one carrier, is looking to modernize its fleet. Others are doing the same.

Arab banks act as financial advisers for many of the airlines. They help decide which financial package looks best for the airlines.

CONTRIBUTORS

ALEX FERGUSON is the news editor of Euromoney Trade and Finance Report.

KEN FERRIS is the editor of Euromoney Treasury Report.

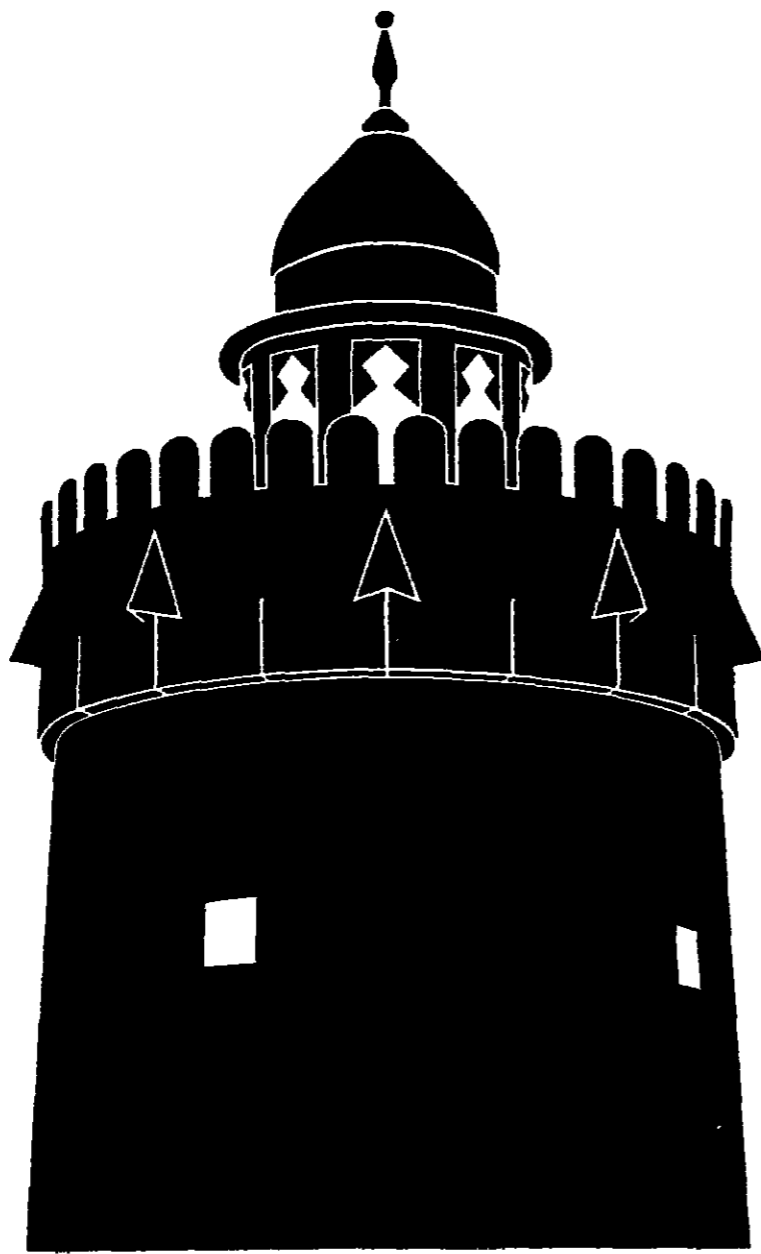
FRANCIS GHILES is a London-based journalist specializing in North African affairs.

RAMI G. KHOURI is an Amman-based journalist who writes about economic affairs and development in Jordan. He is a former editor of The Jordan Times.

KEVIN MUEHRING is a contributing editor to Institutional Investor magazine.

OLFAT TOHAMY, an Egyptian journalist based in Cairo, specializes in the Middle East.

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Gulf Banks Reflect the Slowdown

Continued from page 9

loan loss provisions set by the bank and thus incurred net losses. At the end of last year, problem loans totaled 1.2 billion Kuwaiti dinars (\$4.14 billion), half of which were unsecured. This led the bank to estimate that 500 million Kuwaiti dinars were needed to bail out banks.

Its recent plan for the settlement and re-structuring process to extend over a 10- to 15-year period suggested a much higher figure for government support for the banks.

The Saudi banks' performance last year, as shown by the banks' year-end figures, along with the lingering case of the Saudi Cairo Bank, are increasing the pressure on the Saudi Arabian Monetary Agency to raise its profile.

The profitability of Saudi banks fell by an average of 80 percent to 90 percent, while bad and nonperforming loans accounted for one-quarter of their exposure. These results were particularly discouraging for foreign partners, most of whom have not received dividends and whose contracts with Saudi partners are currently being renegotiated.

Foreign bankers operating in the kingdom complain about the difficulty of seizing collateral in defaulting cases, but they say that the strengthening of the Saudi Arabian

Monetary Agency's arbitration board has given them hope that the problem of Islamic law court rulings against the payment of interest can be overcome. They also say that the Saudi Arabian Monetary Agency is enforcing the practice started last year of banks regularly

reporting nonperforming loans to it.

The Saudi Arabian Monetary Agency's role in rescuing Saudi Cairo Bank, they say, has inspired confidence in the banking community, which has been haunted by the prospect of a shake-up. The agency has saved the bank, all of whose revenues were transferred into provisions last year, by placing a no-interest deposit with it pending a management reorganization operation.

Banking performance and has recommended improving provisions for bad loans. These loans amounted to one-quarter of facilities provided by banks in the country.

Central bank officials said that the banks had made provisions covering 7 billion out of 10 billion U.A.E. dinars in nonperforming loans. The authorities are concerned that further bankruptcies and defaulting cases will affect the smaller banks in the overbanked

Bank du Caire, the Egyptian partner in the bank, are being sued for alleged mismanagement and are being held responsible for losses incurred by the bank on speculative trading in metals.

The United Arab Emirates Central Bank, along with the government of Dubai, have intervened to prevent the Dubai-based Union Bank of the Middle East, one of the Galadari Brothers' largest creditors, from becoming insolvent as a result of the long-standing debt settlement efforts. Bahrain-based offshore banks embroiled in the case include major institutions such as Citibank, which is heading a syndicate forcing these banks' closure.

Despite the slowdown, the wave of delinquent scandals that have plagued banks operating in Egypt over the last three years seems to have subsided, and banks have grown increasingly conservative in their lending.

The change was justified by a high ratio of unsecured loans and the volume of nonperforming loans reaching one-fifth of the total lending, according to central bank statistics. The trend was reinforced by the Central Bank of Egypt's recent upgrading of its supervisory capabilities. The bank has also made it mandatory for all banks to report monthly to its risk-assessment body on the status of facilities extended to clients.

The Saudi Arabian Monetary Agency's role in rescuing Saudi Cairo Bank has inspired confidence in the banking community.

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Key Commercial Banks Join Global 'Big League'

By Rami G. Khouri

AMMAN — for the past three years, Arab commercial banks have sought to weather the regional economic downturn by diversifying into non-financial investment banking services, and in the case of some large banks, by expanding internationally.

This gradual transformation of the character of Arab commercial banking has taken place in a low-key manner, and in the process has spawned a handful of large Arab commercial banks into the big league of global banking.

The post-1983 decline in oil production and prices triggered a regional recession that has sent Arab commercial banks searching for strategies to compensate for the sudden dearth of good lending opportunities.

Besides the domestic recession, Arab bankers must also adjust to the deregulated global financial market's shift away from classical bank-making and lending work in favor of the securitization of

debt and an emphasis on devising new fee-generating investment services for corporate and individual clients.

While most Arab banks remain essentially inward-looking domestic banks, a few, such as the National Bank of Bahrain, Bank al-Mashreq or Jordan National Bank, are profitable regional banks that operate around the Middle East but do not aspire to further horizons.

The real change in Arab banking, however, is to be seen in a handful of big, sophisticated and globally spread Arab banks. These include, most notably, the Arab Bank (Jordan), the National Bank of Kuwait (NBK) and the Bahrain-based Arab Banking Corporation (ABC) and Gulf International Bank (GIB).

Others that may join these big four include the National Commercial Bank (Saudi Arabia), and two Europe-based consortium banks, Union de Banques Arabes and Francaises (UBAF) and Banque

Arabe Internationale d'Investissement (BAII).

The attributes that separate these from the hundreds of other Arab banks and financial companies include their large size in terms of assets/deposits and equity base. ABC started this year with assets of \$13 billion, Arab Bank with \$11.7 billion, National Commercial Bank with \$15 billion and NBK with \$9 billion.

They have the ability to transcend traditional commercial banking business and offer clients the very latest, most sophisticated or simply trendiest financial services, such as currency swaps, foreign exchange and portfolio management, forward deals, options, expertise in merger and acquisition or leveraged buyouts, securities dealings and underwriting private banking services, or a seemingly endless variety of option-laden corporate bonds and notes.

As such, this handful of Arab banks has served notice of an intent to become "universal banks," providing large corporate clients and high net worth individuals with a full range of commercial, personal, retail, corporate and merchant banking services.



Clearance room at Commercial Bank of Kuwait.

Twilick al-Khalil, senior manager of Arab Bank's international division, said: "The recession of the early 1980s speeded up our expansion abroad to offset declining opportunities in the Arab world, and subsequently we found that our presence in the world's financial centers in turn speeded up our expansion into money market activities and merchant banking."

About half of Arab Bank's business is in Jordan and the rest of the Arab world, with the other half generated abroad. About a third of its profits today come from fee-generated, merchant banking operations.

A similar situation exists at NBK, which in the late 1970s began its long-range international expansion.

NBK's general manager, Nemei Sabagh, suggests that management quality and stability will be the principal factors determining how well the Arab banks do abroad. "The challenge that will face Arab bank managers in a fundamentally very different international banking environment and an unfavorable home market will require thoughtful long-term planning and a realistic assessment of their raison d'être and role in the new environment."

Perhaps the one notable trend among the commercial banks this year has been the tendency to sharply tighten up their loan review policies and demand greater security on their loans, and thus reduce the proportion of loans that are uncollateralized.

There is also a generation of 25- to 30-year-old Arab bankers coming into the system, who for the most part, cannot get into the center of things, but they can muscle in on the edges and hope to build up, say, some sort of niche specialty in London," said Mr. Habib of Capital Intelligence.

Perhaps where the Arab banks will continue to focus much of their management skills is in the more mundane internal reorganization. Cutting costs and overheads, building internal controls and credit assessment and control policies, and nurturing middle-level management skills to bring key decision-making as close to the market as possible, providing new products

and services such as loan workouts, "preventive rescheduling," or information research and analysis for corporate clients on cash flow projections are not the stuff headlines are made of.

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Islamic Banks Form Financial Network

AMMAN — Faith and finance, long viewed by Western commercial bankers as uneasy partners, have joined hands during the past decade to lay the groundwork for what may emerge in the next decade as a global financial network based on Islamic tenets.

Although short-lived Islamic banks were established in Pakistan and Egypt in the 1950s and 1960s, it was only during 1975-1983 that two dozen Islamic banks were established throughout the Islamic world. The impetus for the revival of a financial system that was first articulated by the Prophet Mohammed 14 centuries ago was the combination of the Arab world's cash surpluses after 1974 and a widespread grassroots dissatisfaction with the rigid, interest-based commercial banking systems that dominated Islamic societies.

The Islamic ethic believes that the productive human effort and risk element inherent in any business venture should take precedence over its purely financial dimension, and that borrowers,

lenders and the banks that intermediate between them should all share the risk, profit or loss of business venture or trade transaction.

The brisk growth of deposits at the score of Islamic banks established in the late 1970s confirmed that billions of dollars of private savings were being stored at home by people who objected on religious grounds to opening interest-bearing bank accounts.

The nine-year-old Faisal Islamic Bank of Egypt has \$1.2 billion of savings deposits from 1.2 million clients, to top the domestic banks table. In just six years of business, the Jordan Islamic Bank for Finance and Investment has become Jordan's fourth largest bank in terms of deposits, with over \$320 million worth. The eight-year-old Kuwait Finance House was so flush with deposits last year — over \$2 billion — that it stopped accepting new investment deposits because of a lack of profitable investment outlets.

Rami G. Khouri

The Higher the Climb, the Harder the Financial Fall

Continued from page 9

ular regional market or product niches. Kuwait Asia Bank, for instance, has made a success with its penetration of the Pacific Basin. Investcorp has done so as a de-listing investment bank, or the Al-Mal Group, as a Eurobond underwriter.

For many of the financial institutions in the middle, they are either collapsing the reach of their operations to either a purely domestic role or a marginal international role, or rapidly becoming "end users" to the investment products and loans churned out by the more nimble and adept Western banks.

The shakeout has forced most of the banks into a soul-searching management reappraisal in both strategic and tactical thinking. United Gulf Bank, for instance, dramatically sold off the bulk of its loan assets or wrote them off and made a foray into investment banking as the solution to its dilemma. NBK recognized the inevitable, and like even the Eurobond giants such as Deutsche Bank and UBS Securities, moved its marketable securities operations to London.

Investment banking has indeed become the new catch phrase throughout the Gulf, and some success has been made to date. ABC and GIB, along with the three main investment companies in Kuwait, have developed a strong regional role as underwriters and co-managers in the Eurobond market, and several Arab banks have slowly built respectable securities trading divisions. NCB and GIB have fairly successful mutual fund operations for smaller investors. ABC has advised on several takeover bids in London, and is active in the German capital markets through its Frankfurt subsidiary.

But for the most part, the capital markets have proven to be a much tougher nut to crack than the supposedly easier syndicated-loan market, which mostly required a lot of travel and a telex machine.

For one, there has ever been much of a corporate and institutional base in the Arab world to underpin a push into securities underwriting or fund management? For another, Arab surplus capital never really flowed through the Arab intermediaries, but to the Swiss banks and private banking units of American banks.

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The great trading families such as Kuwait's al-Ghanim, or recently created corporate entities such as Saudi Arabia's Olayan Group, have traditionally been the most flush with surplus capital, but they have also been more conservative in their investments and more often than not, have more savvy and sophisticated investment managers working for them than most of the banks could ever hope to offer. Furthermore, the mostly family-run corporate and trading companies are not the sort of fertile ground for mergers activities.

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Likewise, the governments will eventually ease out of heavily subsidizing housing, leaving it entirely to the private sector. Home mortgages will eventually come to the Gulf, and a younger generation of Arab newlyweds will discover the realities of monthly mortgage payments like the rest of the world.

Despite the withdrawal by scores of international banks in Bahrain, the region is not a total credit risk write-off. "Maybe 10 customers go wrong in Saudi Arabia," says one British banker in Bahrain. "But as a percentage of the whole country that is quite small. You can't just go and write off the whole country."

But there is, nevertheless, a fundamental structural problem obscuring the further development of the region's, and particularly Saudi Arabia's, banking system. A legal system for recourse on repayment disputes must be established, bankers and borrowers both stress, and government officials concede.

Lending in the kingdom, for one, has virtually ground to a halt. Due both to the absence of viable lending opportunities, but exasperated by the deterioration in commercial ethics and the lack of recourse in event of default, the consolidated lending of the dozen commercial banks rose barely 1 percent last year, the smallest increase in several decades. Saudi American, for instance, ran down its loan portfolio by 12 percent in 1985.

The Saudi central bank, the Saudi Arabian Monetary Agency, made the first efforts after years of pleas of frustration from the banking community to do something to resolve the dilemma. Future loans will include a clause binding borrowers to go before SAM's recently created arbitration board in a dispute over repayment of debt, hopefully defusing the sensitivity of the "religious question" by steering disputes away from the Shariah courts, whose judges tend to hold little regard for the banks.

But ultimately, the problem of reconciling a Western-style banking system to the religious core of Saudi society is beyond the scope of either SAM or the Ministry of Finance and lies with the very highest echelons of power in Riyadh, which to date, has not been forthcoming.

	Assets	Loans	Earnings
	million	million	million
1. Arab Banking Corp., Manama	\$13.0	\$5.1	\$109
2. Riyad Bank, Jeddah***	\$ 8.7	\$2.9	\$50.5
3. Banque du Credit & Commerce			
MFI Holdings, Luxembourg*	\$16.6	\$6.8	\$59(+)
4. National Commercial Bank, Jeddah**	\$15.1	\$5.7	\$27
5. Gulf International Bank, Manama	\$ 7.8	\$4.2	\$67
6. National Bank of Kuwait	\$ 8.9	\$4.0	\$80
7. AUBAF, Paris	\$11.5	\$4.9	n.a.
8. Arab Bank, Amman	\$13.5	\$2.7	\$75
9. National Bank of Abu Dhabi	\$ 5.6	\$2.8	\$ 3.4
10. Saudi International Bank*	\$ 4.4	\$1.8	\$16

Sources: Annual reports and Capital Intelligence.
*Arab majority owned.
**Calendar year ending September 1986.
***Calendar year ending March 1986.
(+) Profit after \$150 million "shareholder intervention" due to option trading losses. Without infusion, net loss for year of \$91 million.

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- Miscellaneous:** Baby bottles, Covers, Pleasure boats, Office furniture, Domestic furniture, Stationery, Exercise books, Paper packaging, Oilwell maintenance
- Construction Materials:** Marble, Glass, Insulation, Pre-fabricated concrete, Pre-engineered buildings, Cement Blocks, Reinforcing steel, Terrazzo tiling, Ceramic ware
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International Bond Prices

(Continued)

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

SOUTH AMERICA

Security	%	Mid	High	Low	Yield	Vol
Argentina	100	100	100	100	100	100
Brazil	95	95	95	95	95	95
Chile	90	90	90	90	90	90
Colombia	85	85	85	85	85	85
Costa Rica	80	80	80	80	80	80
Cuba	75	75	75	75	75	75
Ecuador	70	70	70	70	70	70
El Salvador	65	65	65	65	65	65
Honduras	60	60	60	60	60	60
Paraguay	55	55	55	55	55	55
Puerto Rico	50	50	50	50	50	50
Venezuela	45	45	45	45	45	45

SPAIN

Security	%	Mid	High	Low	Yield	Vol
Spain	100	100	100	100	100	100

SUPRANATIONAL

Security	%	Mid	High	Low	Yield	Vol
World Bank	100	100	100	100	100	100
IMR	95	95	95	95	95	95
OECD	90	90	90	90	90	90
World Bank	85	85	85	85	85	85
IMR	80	80	80	80	80	80
OECD	75	75	75	75	75	75

JAPANESE YEN (EURO)

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

CANADIAN DOLLARS

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

NORWAY KRONERS

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

NASDAQ National List

OTC consolidated trading for week ended Friday.

Symbol	High	Low	Last	Net
AA	100	100	100	100
AA-1	95	95	95	95
AA-2	90	90	90	90
AA-3	85	85	85	85
AA-4	80	80	80	80
AA-5	75	75	75	75
AA-6	70	70	70	70
AA-7	65	65	65	65
AA-8	60	60	60	60
AA-9	55	55	55	55
AA-10	50	50	50	50
AA-11	45	45	45	45
AA-12	40	40	40	40
AA-13	35	35	35	35
AA-14	30	30	30	30
AA-15	25	25	25	25
AA-16	20	20	20	20
AA-17	15	15	15	15
AA-18	10	10	10	10
AA-19	5	5	5	5
AA-20	0	0	0	0

Treasury Bonds

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

Wall Street Review

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

EURO CURRENCY UNITS

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40	40	40	40	40	40
Baa-10	35	35	35	35	35	35
Baa-11	30	30	30	30	30	30
Baa-12	25	25	25	25	25	25
Baa-13	20	20	20	20	20	20
Baa-14	15	15	15	15	15	15
Baa-15	10	10	10	10	10	10
Baa-16	5	5	5	5	5	5
Baa-17	0	0	0	0	0	0

FRENCH FRANCS

Security	%	Mid	High	Low	Yield	Vol
AAA	100	100	100	100	100	100
AA	95	95	95	95	95	95
A	90	90	90	90	90	90
Baa	85	85	85	85	85	85
Baa-1	80	80	80	80	80	80
Baa-2	75	75	75	75	75	75
Baa-3	70	70	70	70	70	70
Baa-4	65	65	65	65	65	65
Baa-5	60	60	60	60	60	60
Baa-6	55	55	55	55	55	55
Baa-7	50	50	50	50	50	50
Baa-8	45	45	45	45	45	45
Baa-9	40</					

EUROBONDS

Libya's Sale of Fiat Shares Is Criticized by Bankers

By CARL GEWIRTZ International Herald Tribune

PARIS — The initial enthusiasm of banks to underwrite the record block trade in Fiat shares sold by Libya last week quickly faded as banks became aware that a mandated key aim of the transaction is to keep as much of the \$2.1-billion repurchase price as possible, for as long as possible, out of Italy's pocket.

In effect, some underwriters charge that they have unwittingly bought a second-class type of Fiat stock which — unlike other so-called Euro-equities — is designed, at least for a while, to remain distinct from the pool of stock traded in the domestic market.

For Italy, keeping these shares out of the home market means that domestic investors will not wind up paying for the Libyan shares, preventing a capital outflow that would depress the value of the lira.

For Fiat, isolating the Libyan shares removes a huge overhang of stock that otherwise could severely depress the value of the shares. It also allows the Milan stock exchange to remain open.

Bankers' jargon, this lack of familiarity between the international and domestic markets results in "mispriced marketability" because investors have no assurance that a liquid international market will always be available to absorb what ever holdings they may want to sell.

In addition, Italian investors would be expected to buy the international shares if the price fell below the level quoted in Milan. And finally, the technicality separating the international shares from the domestic securities is not permanent.

The technicality is that while investors must pay for their purchases on Oct. 7, no date has yet been set for when they will actually be able to physically acquire the shares they have bought.

The international distribution — denominated in dollars — is being handled like a Euro-equity via the distribution network of the Eurobond market. Mediobanca in Italy underwrote \$500 million, to be sold to Italian institutional investors, and Deutsche Bank bought \$1.6 billion of which it kept \$600 million.

The clearing systems used in the Eurobond market, Euroclear and Cedel, and international trading will be recorded through paperless bookkeeping entries at the clearing systems.

Deutsche Bank has so far given no indication when this global ownership certificate will be replaced with actual shares. But without the actual shares, the securities cannot be traded on the Milan stock exchange since physical delivery of the certificates is required to complete transactions there.

Clearly, the goal is to have developed an international market in Fiat securities by the time the share certificates are available so that there will be no rush to dump the paper on the domestic market.

Banks Set Condition For Peru

Say 'Meaningful' Payment Needed

By David E. Sanger New York Times Staff Writer

WASHINGTON — Commercial banks have told Peru that it must make "meaningful" payments on its \$630 million in overdue interest before they will resume debt-restructuring negotiations, Citibank officials said.

In a statement released Saturday in New York, Citibank said a committee of commercial banks met Friday with Gustavo Sabero, Peru's chief debt negotiator, who said his country "was anxious to resume serious negotiations" on its \$13.7-billion foreign debt.

Except for a token \$17.7-million payment in April, Peru has not paid any interest or principal to private banks since President Alan Garcia took office in 1985. It recently made a payment to the International Monetary Fund, but not enough to stop the fund from suspending further loans.

Bank officials Saturday said privately they are considering dissolving the committee that negotiates on behalf of Peru's several hundred bank lenders. That would leave individual banks free to take Peru to court and try to attach Peruvian assets anywhere in the world.

Mr. Sabero invited economic experts from the banks to visit Lima soon to study developments in the country as a first step toward resuming negotiations "on a serious basis." But he added that Peru is still unable to meet the banks' demand that it make "a meaningful payment" on interest arrears.

Largely because it has not been paying its foreign debt, Peru said Saturday that it would increase early next year and that teachers, bureaucrats and non-union workers in private industry will get an immediate pay raise.

Mr. Garcia told newspaper in Lima that after Dec. 31, the government would not be able to continue to support the exchange rate for the currency, the inti, now set at 13.98 to the dollar.

Spain to Pay More to EC In 1986 Than It Gets

By Youssef Azmeh Reuters

BRUSSELS — Spain is likely to emerge as a net contributor to the European Community budget in its first year of membership, despite assurances to the contrary, raising the prospect of a fight over EC benefits similar to the British budget battle that disrupted community operations for years.

In that battle, which came to a head in 1984, Britain contended that its contribution to the budget was too large, and demanded rebates. The issue caused much bitterness among EC members.

Honeywell Gives Up on Computers

With NEC-Bull Pact, It Admits Defeat to IBM

By David E. Sanger New York Times Staff Writer

NEW YORK — Honeywell Corp. conceded last week that many computer industry experts have said for years: It cannot compete with IBM.

After two weeks of intense stock market rumors, Honeywell said it was negotiating with NEC Corp. of Japan and Cie. des Machines Bull, France's government-owned computer maker, to take a large stake in Honeywell's high-speed computer operations.

NEC and Bull have close technological ties to the Minneapolis-based Honeywell, whose other operations include making military equipment and control devices for homes and commercial buildings.

The announcement appears to mark Honeywell's virtual withdrawal from the computer business after years of watching its share of the mainframe market shrink and seeing its efforts to enter the office-automation business go awry.

While Honeywell released no details of what changes are in store, they seemed certain to include surrendering control of the Information Systems division, which accounted for nearly a third of the company's \$6.6 billion in revenues last year.

Honeywell's top executives, who have been unavailable for comment since rumors about the company began circulating two weeks ago, did not return telephone calls last week. One company official, however, who asked not to be named, said simply: "We can't deal with computers anymore. We just want out."

The development accelerates the biggest computer industry consolidation since RCA Corp. quit the business in the late 1960s and General Electric Co. sold its mainframe computer technology to Honeywell in 1970.

In May, Burroughs Corp. acquired Sperry Corp., a combination that created the world's second-largest computer company, surpassed only by International Business Machines Corp. Many experts speculate that Control

Systems, a Honeywell rival in Minneapolis, may be the next computer maker forced out of the mainstream of the business.

Analysts doubted that Honeywell would receive more than a token payment for the stake in its computer division, whose chief attractions are its marketing and service operations. But they said the match seemed appropriate, noting that Honeywell, NEC and Bull have long exchanged technology.

The common ingredient here is that the computer architectures are very close," said Thomas J. Crotty, president of Gartner Securities, part of Gartner Group in Stamford, Connecticut, which follows the industry.



Honeywell's Major Operations Contribution by segment to 1985 revenues, in billions of dollars.

known late last week. All three companies approved the winding up of a vague announcement, issued by Honeywell on Wednesday, stating their intention to negotiate.

In Minneapolis, Kathy H. Tunheim, a Honeywell spokeswoman, said, "We hope for an agreement by year's end." But NEC and Bull said they had heard nothing specific. "We still do not have a concrete idea from Honeywell," said Koichi Shimbo, a spokesman for NEC in New York. In Paris, a spokesman for Bull, named for the Norwegian inventor Fredrik R. Bull, a pioneer in the development of statistical processors, said talks were "very preliminary."

Honeywell's stock closed Friday at \$72.375 on the New York Stock Exchange, up \$2.375 for the day and \$1.625 for the week. Most of the benefits of a Honeywell-NEC-Bull consortium, Honeywell's plans will not

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Officials Warn Lack of Accord May Hurt Dollar

By Hobart Rowen Washington Post Service

WASHINGTON — Failure of the world's top finance ministers to agree over the weekend on lower interest rates or to stabilize foreign-exchange rates could cause a sharp fall in the dollar when markets open Monday, senior officials warned Sunday.

Before an inconclusive daylong session of the International Monetary Fund's policy-making board, the Interim Committee, a leading European minister predicted that central banks in Europe and Japan are prepared to intervene to stop a sharp decline in the dollar.

"If there is turbulence in the markets pushing the German mark sharply higher, the Bundesbank will have to intervene," another official said. So far as could be determined Sunday, the United States has no plans to join in any effort to stop a dollar slide.

A communiqué issued Saturday by the Group of Seven finance ministers meeting in Washington acknowledged that the basic argument over economic policies continued. Financial experts said that despite the communique's assurances on the need for policy coordination, major nations had reached a negotiating impasse.

"Not only was there no agreement in the G-7 meeting and the Group of Five session that preceded it," a central banker said Sunday, "there was no real discussion." Meeting separately, the ministers of the Group of 24, who represent poor countries within the IMF, expressed disappointment over the continued sluggish performance of the global economy. They reiterated demands for greater financial help from the rich countries.

Attention refocused Sunday on an apparent deadlock on a proposed \$12-billion aid package for Mexico. It was learned that the Mexicans are pressing commercial banks — secret to put up \$6 billion in new

loans — for a reduction in interest rate spreads on the \$6 billion and the existing stock of about \$30 billion of commercial bank loans to Mexico.

"We all understand that in the next few days, we must deal with the Third World debt problem," Finance Minister Gerhard Stoltenberg of West Germany said at a news conference.

"We are all aware that it makes no sense to have a confrontation [among the major powers] at a time when coordination is absolutely necessary to handle the [Third World] debt problem," he added. He said that Paul A. Volcker, the chairman of the U.S. Federal Reserve, who is involved in the negotiations between the Mexican government and commercial banks, had stressed the difficulty of reaching an accord at Friday's G-7 meeting.

Mr. Stoltenberg, while stressing that there had been "a good discussion without confrontation" in the meetings of the G-5 and G-7, conceded that U.S. policy priorities differ from European objectives. The G-5 includes the United States, Japan, West Germany, France and Britain. The G-7 embraces these five, plus Canada and Italy.

Anderson Takes Quaker's Bid

Reuters

HOUSTON — Anderson, Clayton & Co., a food producer, announced Sunday that it had signed an agreement for its acquisition by Quaker Oats Co. for \$812 million.

Quaker, which topped a \$64-a-share proposal from Ralston Purina Co., was expected to begin a \$65-a-share cash offer on Tuesday or Wednesday. Ralston had no comment.

Last Week's Markets

Table with columns for Stock Indices (Dow Jones, S&P 500, NYSE Comp) and Money Markets (Discount rate, Prime rate, Treasury bills).

Currency Rates

Table showing currency rates for various countries including Australia, Canada, France, Germany, Italy, Japan, etc.

Kredietbank S.A. Luxembourgeoise Your Banking Partner in Luxembourg

Table showing financial data for Kredietbank S.A. Luxembourgeoise as of March 31, 1986, compared to previous year.

- List of services offered: 495 bond issues and private placements, 101 bond issues in ECU, 1,300 securities issues, 42 investment funds, etc.

Associated Bank Kredietbank N.V. Arenbergstraat 7, B-1000 Brussels (Belgium)

Kredietbank S.A. LUXEMBOURGEOISE 43, Boulevard Royal L-2955 Luxembourg Phone 47971 Telex 3418

New Eurobond Issues

Compiled by Lawrence Devillettes from information supplied by European bond traders.

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price, Price and week, Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Equity-Linked.

Hopes of Cut In Rates Help Buoy Prices Of Bonds

By Kenneth N. Gilpin

New York Times Service. Demand for bonds picked up after some market participants grew more optimistic about prospects for a coordinated round of interest-rate cuts.

U.S. CREDIT MARKETS

The market was helped by hopes that finance ministers from the world's major industrial nations meeting in Washington would agree on interest-rate reductions.

But the underlying trend of the market remains uncertain. "This is a market that is moving out of uncertainty, not out of conviction," said William N. Griggs.

Mr. Griggs and other analysts noted that traders were anxious to square off their positions going into the weekend because of the possibility that the finance ministers would issue a statement of intentions, rather than plans for fast action.

"If we get a vague communiqué that says we intend to do something sometime, then it looks like the dollar and our market will be in trouble," Mr. Griggs said.

Mr. Griggs said that if the U.S. Treasury's 7 1/2-percent, 10-year bond rose to 99 1/2, it would yield 7.45 percent. Short-term rates were little changed.

Friday's trading was particularly strong among long-term issues, which are a focus of speculators because of their maturity dates.

By late in the day, the price of the government's bellwether 7 1/2-percent, 30-year issue had risen by slightly less than half a point, to 95 1/2, to yield 7.62 percent.

WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

Prices on the Amsterdam stock exchange were higher at the start of last week but failed to sustain the rally.

The ANP-CBS general share index fell to 272.5 from 290.5 the previous Friday. Volume dropped from 5,256 billion guilders to 4,847 billion guilders.

The decline set in on Thursday when it became clear that the West German Bundesbank had again decided not to lower its discount rate.

Investors then decided to await the outcome of talks in Washington involving world finance ministers, analysts said.

Trading was irregular last week on the Frankfurt stock exchange, reflecting a fall in share prices on Wall Street and uncertainty ahead of the weekend meetings of world monetary officials in Washington.

Despite the caution displayed by investors, prices increased an average of 1.5 percent. The Commerzbank index closed at 1,985.1 points, up 30.8 points from the previous Friday.

The volume of transactions came to 1,982 billion Deutsche marks, against 1,928 billion DM last week. Volkswagen last moved up 21 to 612 and Daimler advanced 14 to 1,244.

Indie, in capital equipment, rose 30 to end the week at 797 while Karstadt and Herten, two department stores, rose 14 and 4.30 respectively to 435 and 222.50.

Deutsche Bank moved up 15 to 787, mainly because of its role in the placement of Libya's shares in Fiat of Italy.

The Hang Seng index broke through the 2,000-point barrier last week for the first time, hitting three successive highs to finish the week at 2,034.36, for a 108.54-point gain.

The Hong Kong index jumped an equally impressive 67.75 points to 1,280.30. Daily volume averaged 585 million Hong Kong dollars.

Dealers predicted that the Hang Seng would consolidate at around the 2,000-point level this week.

After a bright start Monday, the market surged Tuesday on news that Hutchison Whampoa had acquired a 4.99-percent stake in Pearson PLC of Britain with an eye to a possible takeover.

The index closed at a new high Friday after Janine Musham, announced a 173-percent jump in its 32 1/2 basis points over Libor, rising to 40 basis points in the final four years.

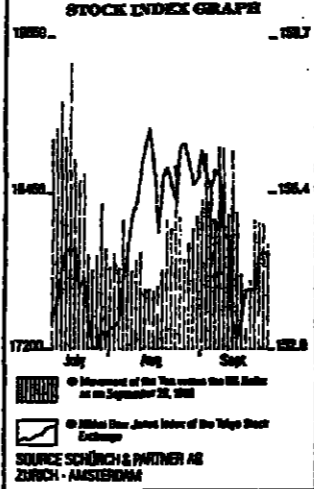
To fill the gap between the Euro-note-commercial paper market, where maturities usually do not exceed one year, and the Eurobond market, where maturities are rarely less than five years, Sweden's Electronix is planning to market medium-term notes of 1- to 10-year maturity.

Like the CP market, terms and conditions will be tailored to Electronix's needs and investors' preferences.

The company intends to market up to \$100 million of notes in the one- to five-year range and up to \$200 million in what dealers Merrill Lynch and Enklidra Securities call a "multisubstrate tap note program."

This latter portion is intended as a continuous offering of notes, ranging up to 10 years.

CONCENTRATED CURRENCY STOCK INDEX GRAPH



CONCENTRATED CURRENCY STOCK INDEX GRAPH. Shows index trends for Amsterdam, Frankfurt, London, and Zurich from July to September.

First selling, for a weekly loss of 2.11 percent. That downward influence on the index was partly countered by a record 11.27-percent gain by the chemicals giant, Montedison, on reports of conflicts between the chairman and shareholders, including Mediobanca, over a bid to take over Fondiaria Insurance.

Mediobanca put on 2.90 percent. Among other leading shares, Gemina gained 14.49 percent.

Share prices on the Paris Bourse gained in sluggish trading last week. The CAC index of leading shares ended the week at 386.4, up from 380.2 on the previous Friday.

Investors were cautious, with foreigners notably absent even though international analysts remain optimistic on future trends on the Paris market. They contend that the Bourse, unlike the Tokyo market, is not overvalued, with French companies having a potential for growth superior to concerns elsewhere in Europe and in the United States.

Analysts noted particular interest in Saint Louis-Breukelen, the sugar manufacturer. Its shares rose 18 percent. The decision by the French government to sell 11 percent of the capital of the nationalized Elf Aquitaine oil company, at 305 francs a share, was well received on the exchange.

Financial experts said small shareholders would likely be favored and that Elf's denationalization operation would therefore succeed.

Gold mines returned to the limelight early in the week in response to the surge in the bullion price, but best levels were not maintained.

Among companies reporting last week, Costa Vignola, Tootal, Combined English Stores, RMC Group, and George Wimpey all produced figures either in line with or higher than expectations. Lanza, as expected, announced lower first-half profits.

Greenwell Montagu, a London broker, remained positive for British equities in the medium term because of good prospects for high growth rates in dividends and earnings.

The COMIT index gained 6.29 points, or just over 1 percent, last week to close at 750.40 Friday, after irregular trading on the Milan bourse dominated by Fiat and Montedison.

After a slow start Monday, reports Tuesday that Libya had agreed to sell its stake in Fiat pushed Fiat shares up 3.8 percent and the index 3.52 percent the same day. But this was followed during the rest of the week by a wave of

until the Malaysian budget is presented next month, analysts said. But additional interest in Singapore investments by Malaysians fearing a drop in their currency could keep the market resilient, they added.

After two consecutive weeks of hefty losses, share prices on the Tokyo stock market chalked up strong advances last week. The Nikkei average gained 437.53 yen over the week to finish at 17,960.98 yen, and the composite index of all common stocks listed on the first section put on 54.21 points to close at 1,503.45.

With their new business year due to start Wednesday, securities firms began Friday picking up several blue chips, focusing on utilities and electronics. Analysts foresaw a bullish market this week with large securities firms continuing to lead the buying spree.

Average daily volume rose to 915 million shares against the previous week's 551.6 million, largely because of a two-billion-share volume Friday, when institutional and corporate investors returned to the market after a strong rally on Wall Street.

Industrials hit a record high of 1,110 Friday, up 479 from the previous week. Nippon Steel, Kawasaki Steel, Tokyo Gas, Tokyo Electric Power, Hitachi and Toshiba also fared well. The market was closed Tuesday for a national holiday.

The Zurich stock exchange was in a holding pattern by the end of last week as investors were awaiting the outcome of meetings in Washington during the weekend of world finance ministers.

Analysts said the trading was further subdued by the refusal of the Bundesbank, to lower its discount rate, a move sought by the United States.

Société de Banque Suisse index dropped to 624.4 from 626 the previous Friday.

"There was a certain pressure to sell, coming from West German investors, that was noted at the end of the week," according to one stock market source. As a result, he said, shares of Union de Banques Suisses dropped 70 points to 5,650, while those of Motor Columbus, a financial company, were down 65 to 1,875.

Insurance concerns closed stronger, led by Cie. de Reassurance normale shares, which closed 200 points better at 6,150. Ciba-Geigy better shares, leading the chemicals section, were up 125 to close at 3,500.

Eurotunnel Syndicated Credit Sets Project-Financing Record

By Carl Gewirtz

PARIS—The largest syndicated credit for project financing was announced last week for Eurotunnel, the Anglo-French consortium set up to build a rail tunnel under the English Channel.

"Not only is the size a record—\$2.5 billion—but so is the 18-year duration. Larger credits have been organized on the international market, but they have been much shorter in term, and associated with separate takeover battles."

The loan is scheduled to be drawn in mid-1988. Until then, Eurotunnel will pay the banks an annual commitment fee of 1/4 percent. In the early phase of construction, interest will be set at 1 1/4 points over the London interbank offered rate. After completion, scheduled for 1993, interest will drop to 1 point over Libor.

Banks underwriting the loan will earn a front-end commission of 3/4 percent. Confirmation that the banking syndicate was prepared to finance the initial stage of the project was needed before the consortium could proceed with plans to make its first international share offering totaling \$206 million.

The five founding banks of the Eurotunnel Consortium—Credito Lyonnais, Banque Nationale de Paris, Banque Indosuez, Midland Bank and National Westminster—arranged the loan. "Elsewhere, the competition be-

tween Ireland and France's Credit National produced surprising results. Ireland will pay banks an annual fee of 4 basis points, or 0.04 percent, for the first two years and 3 basis points thereafter for providing a 10-year, \$400-million facility that will be used to back the sale of short-term notes.

If the Irish draw on the bank line, they will pay Libor for using up to 25 percent of the total amount of the amount will cost the Irish 7 1/2 basis points over Libor and for more than that they will pay 12 1/2 basis points over Libor.

The terms looked particularly aggressive when compared with those that Credit National accepted on a \$300-million, 10-year facility. It will pay an annual facility fee of 4 basis for the first five years and 5 basis points thereafter.

Drawings in dollars will cost the borrower interest pegged at Libor for up to 25 percent of the total amount. If up to 60 percent is used, interest will be set at 5 basis points over Libor, and for more than that the borrower will pay 10 basis points over Libor.

Drawings in other currencies will cost 2 basis points over Libor for up to 25 percent, and identical charges thereafter to drawing in dollars.

Credit National confirmed bankers' comments that it had received proposals for much lower charges—a facility fee of 4 basis points for 10 years—after Ireland's terms were disclosed, but said it rejected them as "too aggressive."

The credit agency said it was motivated by two factors. One is the French Treasury's guideline that no more than half the total amount be underwritten by French and Japanese banks, the other a desire to have a wide contingent of American banks, which are generally more demanding on remuneration.

The U.S. banks are the biggest places of short-term notes, and having them in the tender panel bidding for paper that Credit National sells is an assurance that the cost of the paper will be the lowest possible.

The loan is being arranged by Bank of America, Bank of Tokyo, Société Générale and Orion Royal Bank.

Meanwhile, Chase Manhattan and Mitsubishi Bank, managers of the Irish loan, report an "extremely favorable" response, noting that Morgan Guaranty, First Chicago, Banque Nationale de Paris and Commerzbank had agreed to join the syndicate.

In Hong Kong, bankers report a tremendous hunger for assets—used, that is, a corporation of loan charges. India benefited from this, with the Oil and Natural Gas Commission paying 14 point over Libor for the first three years and 1/2 over Libor for the final seven years on a \$300-million loan. These are the lowest terms yet paid by an Indian borrower.

The commission is also raising \$200 million on a tax-secured basis. The tax treaties India has with Japan and Britain enable banks in those countries to make loans at

very low cost and still make a hefty profit. To assure their home authorities that taxpayers are not subsidizing the banks or the borrower, interest on this loan is set at a token margin of 1 basis point over Libor.

Island Creek of China Coal Ltd., a joint venture of Occidental Petroleum and the Bank of China, is seeking \$475 million to develop what will be the largest mine in the world, producing 12 million tons a year of steaming coal.

The 10 1/2-year facility comprises a \$300-million loan once the project is completed (expected within 18 months), a \$75-million revolving standby facility once the mine is completed and a \$100-million loan that becomes available once the price of the coal reaches a set level. The lenders have only limited recourse to the sponsors for repayment; the output from the mine will be used to service the loan.

Interest is more than 1 point over Libor, bankers report. The loan is being organized by Bank of America, Credit Lyonnais, Industrial Bank of Japan, Orion Royal Bank and the Bank of China.

In Eastern Europe, Hungary achieved what at first glance looked like an amazingly low terms. It has arranged a \$100-million loan with a group of Japanese banks at terms that set a new low, but not as low as it appears.

The eight-year credit is divided equally into a term loan, on which interest is set at 1/4 point over Libor for the first four years and 3/4 point over Libor thereafter. Interest on the revolving credit is set at 5 basis points over Libor for the first four years and 12 1/2 basis points thereafter.

However, the Hungarians will pay an annual facility fee on the revolving credit of 12 1/2 basis points, regardless of whether it is drawn or not. In addition, if Hungary draws more than one-third of the amount, it will pay a utilization fee of 10 basis points, and if it draws more than two-thirds, the utilization fee rises to 15 basis points.

In actual cost, drawing the full amount of the revolving credit during the first four years would cost

EUROBONDS: Sale of Libya's Fiat Shares Criticized

(Continued from first finance page) payment date (it has risen a fraction since Wednesday) and the rise in the value of the securities declines (as it has), underwriters could be left holding dollar-denominated Fiat shares whose price is way out of line with the values expressed on the Milan stock exchange.

"On Wednesday, Fiat's common stock closed at 16,600 lire, the preferred shares at 9,200. By Friday, the common stock was down 6.7 percent, the preferred shares had fallen 9.6 percent and the savings shares were off 1.6 percent.

The offering price in dollars set Wednesday was \$11.28 for the common stock, \$7.06 for the preferred stock and \$6.75 for the savings shares. But using Friday's exchange rate and stock prices, the common stock could be purchased in Milan for the equivalent of \$10.95 a share, the preferred stock

for \$6.72 and the savings shares for \$6.54. Some of the underwriters estimate that more than 70 percent of the savings and preferred shares remained to be sold. Estimates on the sale of common stock were more difficult, these underwriters said, since many orders that had been placed were canceled by customers who were concerned about the marketability.

There was little other business of interest in the international market last week. Virtually all the fixed-coupon Eurodollar bonds were designed for Japanese investors who want high-yielding paper to maximize current income and who are willing to pay for it with over-par subscription prices.

A novelty in the French franc sector was Sweden's five-year bull-bear bonds, whose redemption value is tied to the performance of the Paris stock exchange index. The

Chicago Bank to Close Branch in Abu Dhabi

ABU DHABI—First National Bank of Chicago will close its Abu Dhabi branch by the end of this year, the vice president and general manager, Alan Stark, said Sunday. He said the bank would retain a branch in Dubai, another of the seven emirates in the United Arab Emirates.

Table with columns: Company, Bid, Ask. Includes Bitter Corp., GoodMark Foods, MAC Holdings, MacDure, Mr Goshal.

INTERNATIONAL ESCORTS

USA & WORLDWIDE. Major office services. 230 W. 56th St., NYC 10019 USA. 212-765-7896. 212-765-7734.

LONDON. Portman Escort Agency. 67 Colindale Avenue, London W11. Tel: 484 3724 or 484 1158. All major credit cards accepted.

LONDON KENSINGTON. Escort Service. 10 Weymouth Close, W11. Tel: 927 9136. All major credit cards accepted.

LONDON BELGRAVIA. Escort Service. Tel: 736 5877.

ARISTOCATS. London Escort Service. 128 Wigmore St., London W1. Tel: 484 3724 or 484 1158. All major credit cards accepted.

REGENCY NY. Worldwide Escort Service. 212-634-8027 or 753-1844.

MADRID. Shadow Escort Service. Tel: 250071-250072.

INTERNATIONAL CLASSIFIED

(Continued From Back Page) ESCORTS & GUIDES. MAYFAIR CLUB. ESCORT SERVICE from 5pm. Tel: 01-262-1212. THE HAGUE (0) 70-60 79 96.

LONDON. Caprice-NY. ESCORT SERVICE in NEW YORK. Tel: 375-727 2291.

LONDON. ZURICH. JACQUELINE ESCORT & GUIDE SERVICE. Tel: 011 69 35 54.

LONDON. ZURICH 558720. Private Escorts, Guide Services. Credit Cards Accepted.

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ESCORTS & GUIDES

ZURICH ANIS ESCORT. Tel: 01/47 55 82.

HYDE PARK ESCORT Service. London/Heathrow/Gatwick. 01-232 3910.

LONDON SWISS ESCORT Service. Tel: 01-534 0971.

AMSTERDAM. BERNADETTE ESCORT Service. Tel: 020-527779.

AMSTERDAM. BOSTA ESCORT Service. Tel: 20-362023.

FRANKFURT. POLAND ESCORT Service. Tel: 069-241 111.

LONDON CHINESE JAPANESE ESCORT Service. Tel: 01 821 0207.

SPORTS

Red Sox Beat Jays, Clinch Tie in NL East

Compiled by Our Staff From Dispatches
BOSTON — The Boston Red Sox clinched at least a tie for the American League East title Saturday when Bruce Hurst pitched a six-hitter to beat the Toronto Blue Jays, 2-0.

Leon pitched a three-hitter against Minnesota in the opener and Ozzie Guillen singled in the bottom of the ninth in the second game to give Chicago a sweep of the doubleheader. Jerry Hairston of the White Sox homered in both games.

Philadelphia doubled in the only run to beat Floyd Youmans, who pitched a 15-strikeout two-hitter but walked seven.

Schmidt of Philadelphia doubled in the only run to beat Floyd Youmans, who pitched a 15-strikeout two-hitter but walked seven.

Giants 8, Dodgers 3: In San Francisco, Vida Blue and Jeff Robinson held Los Angeles to seven hits and pinch-hitter Chili Davis's two-run homer helped make a loser of Fernando Valenzuela.

U.S. Team Faces Volleyball Testing

NANTES, France — The favored U.S. team faces a tough test beginning Monday in the semifinals of the 11th world volleyball championships.

Laworski, De... Help Lowly... Defeat Rams

PHILADELPHIA — Quarterback Lawrence Sanders' three touchdown passes and a defense that included Eric Dickerson carried the Philadelphia Eagles to their first victory since Monday of the previous season.

ACROSS
1 Grand (bridge term)
5 Restrict
10 Skeleton part
14 Hawaiian dance
15 Cryptographer
16 In a line
17 Secondhand
18 Fragrance
19 Prides or
20 Gershwin favorite: 1924
23 ...thy warfare—
24 Deed
25 Happenings
27 Spangolino or Skogard
30 Challenges
32 Challice well
33 Oarsmen
36 Acknowledge
40 Cole Porter hit: 1935
43 Arabian gulf
44 Saharan rock area
45 Wine cask
46 Eats limited food
48 Four-footed mammal
50 Shooting star

- 11 Mythical hunter
12 Combination of nine voices
13 Water pitchers
21 Fruit of an oak
22 First woman
26 Jacob's twin
27 Polish cake
28 Clarinet part
29 Exhort
30 Judges
31 Turkish carriage
34 Differently
35 Which thing
37 Life, in Italy
38 Burden of proof
39 Departed
41 India, to René
42 Eva or Zsa Zsa
43 Large hawk
47 Baffling matter
50 Paired
51 Expunge
52 Trait
53 Allies
56 Hill dwellers
57 Cousin of argon
58 Writer
59 Concealed
60 Famed illness
61 Remainder
63 Homily: Abbr.

Downing Hits 2 Homers, Angels Win Title

ANAHEIM, California — Brian Downing, in his ninth and possibly last season with the California Angels, hit two home runs and drove in five runs Friday night to lead the Angels to the American League West title with an 8-3 victory over the Texas Rangers.

Downing, who is eligible to become a free agent after the season, hit a two-run homer in the sixth, then got a three-run shot in the seventh during another four-run inning.

Tigers 3, Yankees 2: In New York, Walt Terrell pitched a four-hitter over eight-plus innings and Chet Lemon homered for Detroit.

One-hitter Mets last Sunday, Freeman went six innings, allowing only a fourth-inning single by the league's leading hitter, Tim Lincecum.

DENNIS THE MENACE
When I get through writing this story, will you read it to me?
JUMBLE
That Scrambled Word Game by Henri Arnold and Bob Lee
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

WEATHER
EUROPE HIGH LOW ASIA HIGH LOW
Africa
Latin America
North America
Oceania
MONDAY'S FORECAST - CHANNEL 11, 10:55 PM: Partly cloudy, 60-70.

PEANUTS
LIFE IS STRANGE
YOU CAN BE VERY CLOSE TO SOMEONE...
THEN, FOR NO REASON AT ALL, YOU SEEM TO GRADUALLY DRIFT APART
MY SUPPER DISH USED TO BE TWO FEET AWAY... NOW, IT'S THREE FEET

BLONDIE
DAGWOOD IS ON HIS WAY HOME
BUT HE HAD A BAD DAY AT THE OFFICE
HOW BAD?
HIS BOSS FOLLOWED HIM ALL THE WAY HOME
JUST TO KEEP CHEWING HIM OUT

BEETLE BAILEY
BONK!
FALLING ROCK ZONE
CAN'T YOU DO ANYTHING RIGHT, BEETLE?!
I DIDN'T GET HIT

ANDY CAPP
CHEERIO, MUM, I'LL ROLL UP TO SEE YOU NEXT WEEK
WILL ANDY BE COMING?
I'M AFRAID NOT, MOTHER - HE SAYS YOU'RE ALWAYS FINDING FAULT WITH HIM
I'VE ALWAYS TREATED HIM LIKE ONE OF THE FAMILY
THERE YOU ARE, YOU ADMIT IT!

WIZARD of ID
A MESSENGER FROM THE FRONT!
SIR RODNEY IS RUNNING OUT OF SUPPLIES!
TELL HIM TO LIVE OFF THE LAND!
HE'S RUNNING OUT OF THAT, TOO!

REX MORGAN
AS DR. MORGAN VISITS LARRY FELTON AT THE HOSPITAL, HE REALIZES THAT HIS FRIEND HAS BECOME DEPRESSED AFTER MAKING A COUPLE OF PHONE CALLS!
AS I SAID, YOU SEEM DEPRESSED THIS EVENING, LARRY. DID LIZ SAY SOMETHING THAT UPSET YOU?
NO - SHE'D NEVER DO THAT...
AFTER TALKING TO HER, I REALIZED MORE THAN EVER THAT I DESERVE SOMEONE BETTER THAN ME. I'M NOT A VERY NICE PERSON, REX!
LIZ WOULD OBJECT TO YOUR SAYING THAT!

GARFIELD
(WHEW! BOY IS MY BREATH BAD THIS MORNING)
IT MUST HAVE BEEN THAT SANWICH I ATE BEFORE BED LAST NIGHT
OR POSSIBLY THAT BLOCK OF GOAT CHEESE

FRIDAY BASEBALL
Downing, who is eligible to become a free agent after the season, hit a two-run homer in the sixth, then got a three-run shot in the seventh during another four-run inning.

Left-hander John Candelaria, who gave the Angels a big boost when he returned in July from elbow surgery, struck out nine and allowed five hits over seven innings to win his ninth game.

For Downing, the homers were his 19th and 20th of the year. Six of those homers, and 21 RBIs, have come in September. He has a career-high 97 RBIs.

Blue Jays 1, Red Sox 0: In Boston, Toronto's Jesse Barfield led off the 12th inning with his 36th home run.

Phillies 5, Expos 0: In the National League, in Montreal, Mike Schmidt of Philadelphia doubled in the only run to beat Floyd Youmans, who pitched a 15-strikeout two-hitter but walked seven.

Astros 4, Braves 0: In Atlanta, Danny Darwin allowed six hits over seven innings and Craig Reynolds drove in three runs for Houston.

Phillies 5, Expos 0: In the National League, in Montreal, Mike Schmidt of Philadelphia doubled in the only run to beat Floyd Youmans, who pitched a 15-strikeout two-hitter but walked seven.

BOOKS

FALLING TOWARDS ENGLAND

By Clive James. 192 pages. \$15.95. W.W. Norton & Co., 500 Fifth Avenue, New York, N.Y. 10110.

Reviewed by Jonathan Yardley
CLIVE JAMES is a popular, prolific and controversial British journalist, a trenchant critic of literature and television and a notably amusing memoirist. He is a native Australian whose boyhood was the subject of "Unreliable Memoirs," a book that traced his life through his undergraduate education at the University of Sydney. In 1962, at the age of 22, he sailed to England in hopes of finding a grand career. What came of those hopes is the subject of "Falling Towards England."

Solution to Friday's Puzzle
VALE CHAMBER HAM
ODEA HAXITE ANO
WING IRENE'S BOW
STOL OERN ASIDE
ELEM1 FLUTED
CHAFFS CHIEF
HELEN GAOL FELT
ERMA CANOE AMOR
WEST ALIT ALIVE
HAMAN ECOLES
ATHENA OATH
CHARY FIST IRIS
REV RELATE DUSK
JRE IRONER ESTE
DEN MESES SHOW

BRIDGE

By Alan Truscott
In an American tournament the results of the first session of a pair championship are generally available within an hour of the completion of play, whether scored manually or by computer. But at the recent world mixed-pairs championship in Miami, won by Jon and Pamela Wittes of Los Alamitos, California, a new French computer program was introduced, requiring the players to complete a complex form that was then to be scanned by a card-reader for the computer.

SCOREBOARD
Baseball
Football
Basketball
Hockey
Soccer

BRIDGE
North: A 9 8 6 5 4 3 2
South: K 7 6 5 4 3 2
West: A 9 8 7 6 5 4 3 2
East: K 7 6 5 4 3 2

TRANSIT
LA LARKERS' FLYING...
NEW YORK...
ATLANTA...
PHILADELPHIA...

SPORTS

Jaworski, Defense Help Lowly Eagles Defeat Rams, 34-20

PHILADELPHIA — Quarterback Ron Jaworski's three touchdown passes and a defense that stopped the National Football League rushing leader Eric Dickerson carried the Philadelphia Eagles to a 34-20 upset Sunday of the previously unbeaten Los Angeles Rams for embattled Buddy Ryan's first head coaching victory.

Jaworski, who left the game with a slight concussion, completed 17 of 27 passes for 213 yards as the Eagles showed the Veterans Stadium spectators who were booing and after three losses, were shouting for Ryan's firing.

The ferocity of the Eagles' offense was only slightly more surprising than the collapse of the Rams' defense, third in the league before the game. Los Angeles had won its first three.

The Eagles, last in rushing defense, stonewalled Dickerson in the first half, allowing him just 19 yards on eight carries. He wound up with 58 yards on 17 rushes.

The Eagles scored to a 27-0 halftime lead, turning an intercepted pass, a fumble recovery and a trick play into 17 of those points.

Wideback 42, Packers 7: In Minneapolis, Tommy Kramer threw six touchdown passes for Minnesota and surpassed the 20,000-yard career passing mark.

Kramer, who was replaced early in the second half after his sixth touchdown, threw two scoring passes each to Steve Jordan and Hassan Jones and one each to Darin Nelson and Mike Mularkey.

Redskins 19, Seahawks 14: In Washington, George Rogers rushed for 115 yards and two touchdowns as the undefeated Redskins triumphed over previously unbeaten Seattle.

Rogers' second score, from seven yards, gave his team a 16-7 lead late in the third quarter. The run capped a 74-yard drive and gave the Redskins some breathing room after they had used a team-record 57-yard field goal by Steve Cox to take a 9-7 halftime lead.

The Seahawks closed to 19-14 when David Krieg hit Steve Largent on an 11-yard touchdown pass with 1:50 left, but Seattle could not get past the Washington 49-yard line after getting the ball back with 44 seconds remaining.

Largent caught three passes to tie Harold Carmichael's NFL record of having caught a pass in 127 consecutive games.

Browns 24, Lions 21: In Cleveland, Gerald McNeil, 143 pounds (64.7 kilograms) the lightest player in the NFL, returned a punt 94 yards for a touchdown and started the tie-breaking drive with a 36-yard kickoff return against Detroit.

McNeil's third-quarter punt return was the longest in the Browns' history. His fourth-quarter kick return started a 10-play, 58-yard drive that ended in Matt Bahr's 24-yard field goal with 11 minutes to play.

NFL ROUNDUP

49ers 31, Dolphins 16: In Miami, Jeff Kemp passed to Jerry Rice for two touchdowns and the San Francisco defense frustrated Dan Marino with a career-high four interceptions.

The Dolphins are off to their worst start in 17 years. It was their third loss in four games; Miami hasn't started so badly since beginning 0-3-1 in 1969, the year before Don Shula took over as coach.

While Marino completed 27 of 46 for 301 yards, he was constantly hurried and never got his rhythm. His frustration was most evident on the 49ers' final touchdown, an interception by Ronnie Lott, who lateralled to Tom Holmoe, who ran 66 yards for a touchdown. Marino was the last man between Holmoe and the goal line but ran right by rather than tackle him.

He was lifted after that for Don Strock.

Giants 20, Saints 17: In East Rutherford, New Jersey, Phil Simms threw a four-yard touchdown pass to tight end Zake Mowatt with 8:03 to play as the Giants rallied from a 17-point first-half deficit and downed New Orleans.

The touchdown pass was the second of the day for Simms and capped a seven-play, 72-yard drive that set up the quarter's final score with an 18-yard scramble. It also was the first regular-season touchdown in more than a year for Mowatt, who missed all of last season with a knee injury.

The winning drive was set up when Leonard Marshall recovered Rubeen Mayes' fumble at the Giants' 28.

Bears 44, Bengals 7: In Cincinnati, score-shouldered quarterback Jim McMahon threw three touchdown passes to inspire a sluggish Chicago offense to its most productive performance of the season.

The Bears returned to their style reminiscent of their 1985 Super Bowl season, using McMahon's leadership to cash in on five interceptions by their hard-hitting linebackers and defensive secondary.

Chicago built a 21-0 lead in the first quarter and was never in jeopardy. McMahon, making his first start since separating his shoulder three weeks ago, dove one yard for the Bears' first score, threw a two-yard scoring pass to running back Walter Payton, then launched a perfect 53-yard scoring pass to wide receiver Willie Gault to complete the biggest first-quarter scoring blitz against Cincinnati in five years.

Kansas City 20, Broncos 17: In Orchard Park, New York, Nick Lowery kicked a 46-yard field goal with 1:07 to play to give Kansas City its victory.

The Chiefs scored twice in the game's final five minutes and were helped when Buffalo quarterback Jim Kelly threw an interception to Deron Cherry late in the fourth quarter after the Chiefs had scored the tying touchdown.



Cornelius Boza-Edwards slipped under one punch thrown by Hector Camacho but could not duck enough to defeat the World Boxing Council light-heavyweight champion.

Rosario Strips Bramble of WBA Title; Honeyghan Wins Welterweight Crown

MIAMI BEACH, Florida — Edwin Rosario, considered an over-the-hill fighter only a few months ago, won the World Boxing Association light-weight title in a shocking upset by knocking out the champion, Livingstone Bramble, 2:28 seconds into the second round.

The upset Friday night is likely to scramble the lightweight scene, in which a "dream match" had been expected with Bramble against Hector Camacho, the World Boxing Council light-weight champion. Camacho retained his title in a second fight here Friday, with a unanimous 12-round decision over Cornelius Boza-Edwards.

Rosario, after a cautious first round, cut loose in the second. He nailed Bramble with a left hook and a right that drove the champion against the ropes.

Rosario landed punch after punch, largely without response. As he pounded away on Bramble, a 4-1 favorite in the scheduled 15-round, blood streamed from a cut above Bramble's eye.

Rosario dropped the champion to his knees with a right. Bramble remained there as the referee, Ernesto Magana, counted him out. Rosario raised his record to 24-2 with 20 knockouts. Bramble is 24-2-1.

Bramble said he was going to the hospital for medical attention, adding that he thought he had been thumped in the eye during the second round.

Rosario had won the WBC light-weight title in May 1983 from Jose Luis Ramirez. But he looked unimpressive in taking a decision from Howard Davis in June 1984. In his



Lloyd Honeyghan, left, of London took the welterweight title from heavily favored Donald Curry in the sixth round.

Miami Defeats Oklahoma By 28-16 as Testaverde Passes for 4 Touchdowns

Compiled by Our Staff From Dispatches

MIAMI — Vinny Testaverde, the once-forgotten quarterback who considered leaving the University of Miami in search of a chance to play, on Saturday turned an angry meeting of the two top-ranked teams in college football into his stage.

Testaverde threw four touchdown passes in No. 2 Miami's surprisingly complete 28-16 victory over No. 1 Oklahoma before a crowd of 71,451 in the Orange Bowl. He completed 21 of 28 passes — including 14 in a row — for 261 yards as the offensive line of the Hurricanes (4-0) consistently provided its quarterback with more than enough time.

"Testaverde is the best quarterback we've ever played against," said Barry Switzer, Oklahoma's coach for 14 years.

Asked if he'd like a rematch with Miami, in the New Year's Day Orange Bowl game, Switzer replied, "I wouldn't want to play them again."

Testaverde was not intercepted by a Sooner secondary that was far more mature and cohesive than the unit that he exploited in the 27-14 victory last season at Norman, Oklahoma.

That was Oklahoma's only loss in what became a championship season and the Sooners, led by Brian Bosworth, the all-America linebacker, had claimed, loudly and often, that they would reassert themselves.

But with the Oklahoma wishbone offense forced into trying to come from behind, Saturday's game became most one-sided. The Sooners (2-1) endured their worst loss in five years and had to hear the Miami student section sing "Eye-Bye, Bosworth, we hate to see you go."

Testaverde, who was a backup to Jim Kelly and Bernie Kosar, both now in the pros, did not play three seasons ago, when the Hurricanes shocked Nebraska in the Orange Bowl to top the spot in the final news agency polls. And he was not a starter until last year. This time he beat the Sooners with his strength and scrambling ability, as well as with his arm.

Twice, against the defensive unit billed as the most formidable in the nation, Testaverde turned what seemed to be certain losses into gains. On a first down from the Miami 48, he avoided the rush and looped a pass to fullback Alonzo Highsmith for a 13-yard gain.

Two plays later, from the Sooner 34, Testaverde scrambled near the right sideline, avoided four tacklers, and ran across the field to go out of bounds on the left, having covered about 70 yards for a 10-yard gain.

"I turned around and thought, 'What's going on, here?'" flanker Mike Irvin said. "This guy cuts right, then he cuts left. I got tired and stopped running. I said, 'Vinny, go down.'"

As Testaverde knelt on the grass to catch his breath, the Oklahoma coaches called time so the defense could catch their breath.

Four plays later, a six-yard pass to reserve tight end Alfredo Roberts gave the Hurricanes a second-quarter lead they never lost.

In the third quarter, Testaverde's eight-yard pass to Charles Henry regained a sense of control. A five-yard pass to Irvin presented Oklahoma's wishbone with a nearly hopeless 18-point deficit.

And, after Sooner tight end Keith Jackson took a pass from Jamelle Hollaway for a 54-yard score, Testaverde's 30-yard pass on a line to Irvin put the game out of reach, began a celebration and established the quarterback as a leading contender for the Heisman Trophy.

The Oklahoma wishbone, which had averaged 460 yards rushing in its first two games this season, picked up only 186 in 48 attempts.

Nebraska 48, Oregon 14: In Lincoln, Nebraska, defensive end Broderick Thomas recovered three fumbles in the first half, one for a touchdown and another to set up a score for the No. 4 Commodores.

Michigan 20, Florida St. 18: In Ann Arbor, Michigan, strong safety Ivan Hicks intercepted two second-half passes, the second leading to a seven-yard touchdown, as the

No. 5 Wolverines edged the No. 20 Seminoles.

Southern California 20, Washington 16: In Los Angeles, split end Ken Henry caught two touchdowns passes. One, a 15-yarder from quarterback Rodney Peete in the fourth quarter, put the No. 12 Trojans ahead to stay against the No. 6 Huskies.

Penn State 42, East Carolina 17: In University Park, Penn State quarterback John Shaffer threw two touchdowns passes as the No. 7 Nittany Lions ran up a 35-0 halftime lead.

Auburn 34, Tennessee 8: In Auburn, Alabama, Brent Fulwood ran for 207 yards, scoring on a 19-yard run and setting up another touchdown with an 85-yarder for the No. 8 Tigers.

Arkansas 42, New Mexico St. 11: In Little Rock, Arkansas, quarterback Greg Thomas engineered three touchdown drives in the No. 9 Razorbacks' first four possessions.

Holy Cross 41, Harvard 6: Sophomore quarterback Jeff Wiley engineered four touchdowns in a 61-minute span while the Crimson committed 11 turnovers in the game and tied an NCAA Division I-AA record by throwing nine interceptions.

Notre Dame 41, Purdue 9: In South Bend, Indiana, a potent offense led by freshman tailback Anthony Johnson's two touchdowns gave Lou Holtz his first victory as Irish coach. (NYT, WP, AP, UP)

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

Table with columns for team names and scores. Includes sections for Friday's Results, Saturday's Results, and National League.

Major League Standings

Table showing league standings for American League and National League, including columns for wins, losses, percentage, and games behind.

Football

Selected U.S. College Scores

Table listing scores for various college football games, including teams like Brown, Michigan, and others.

European Soccer

Table listing results from European soccer leagues, including English First Division, German First Division, and Italian First Division.

Norman Passes \$1 Million in Earnings As Australia Wins Team Tournament

ST. ANDREW'S, Scotland — Greg Norman became the first man to win \$1 million in a single golf season Sunday when he led Australia to victory in the final of the Dunhill Cup team tournament.

The Australians retained their trophy with a 3-0 blanking of Japan and shared the top prize of \$300,000, boosting Norman's personal earnings for 1986 to \$1,008,000. He said he will play in seven more tournaments.

In three appearances in Britain alone, the long-hitting Australian, winner of the British and European opens, has earned \$337,500. He has completed his American PGA Tour with \$653,296, just ahead of Bob Tway, who has \$638,516 and five tournaments to go.

"It's a great feeling to have seven figures behind my name but I suspect the tax man is equally as happy," Norman said.

In Saturday's semifinals, the U.S. team had lost 2-1, to the Japanese, while Australia beat Scotland 2-1.

Mark Calcavecchia leads 6-under-par 66 and took a five-shot lead Saturday at 204 after three rounds of the Southwest Classic. The Associated Press reported from Abilene, Texas, Tom Byrum held second at 209 after a 67.

Women's Circuit for Asia A women's golf circuit is to begin in Asia next year, the sponsors announced Sunday in Tokyo, Agence France-Press reported. It will begin with a tournament in Thailand on Feb. 12, and move on to Malaysia, Singapore and Indonesia.

SPORTS BRIEFS

Now Nystrom Is Out for Sweden STOCKHOLM (UPI) — Defending champion Sweden, which has already lost Mats Wilander to a saboteur for its Davis Cup semifinal next weekend against Czechoslovakia, now has Jan Mikko Nystrom on an injured knee, the Swedish coach Hans Olsson said.

Nystrom said from Barcelona that if he would be "only maybe 75 percent fit, and that is not enough for Davis Cup competition."

Scots Beat Japanese in Rugby, 33-18 EDINBURGH (APF) — Japan lost an international rugby match to Scotland on Saturday, 33-18, as left wing Iwan Tukalo scored four of Scotland's six tries.

Japan had three tries, all after the Scots built a 33-6 lead.

For the Record Rosendo Nebasnik, the Olympic 110-meter hurdles champion, will be allowed to compete in next year's world track championships in Rome because he has retired from pro football, the president of the International Amateur Athletic Federation, Primo Nebiolo, said Friday. (AP)

